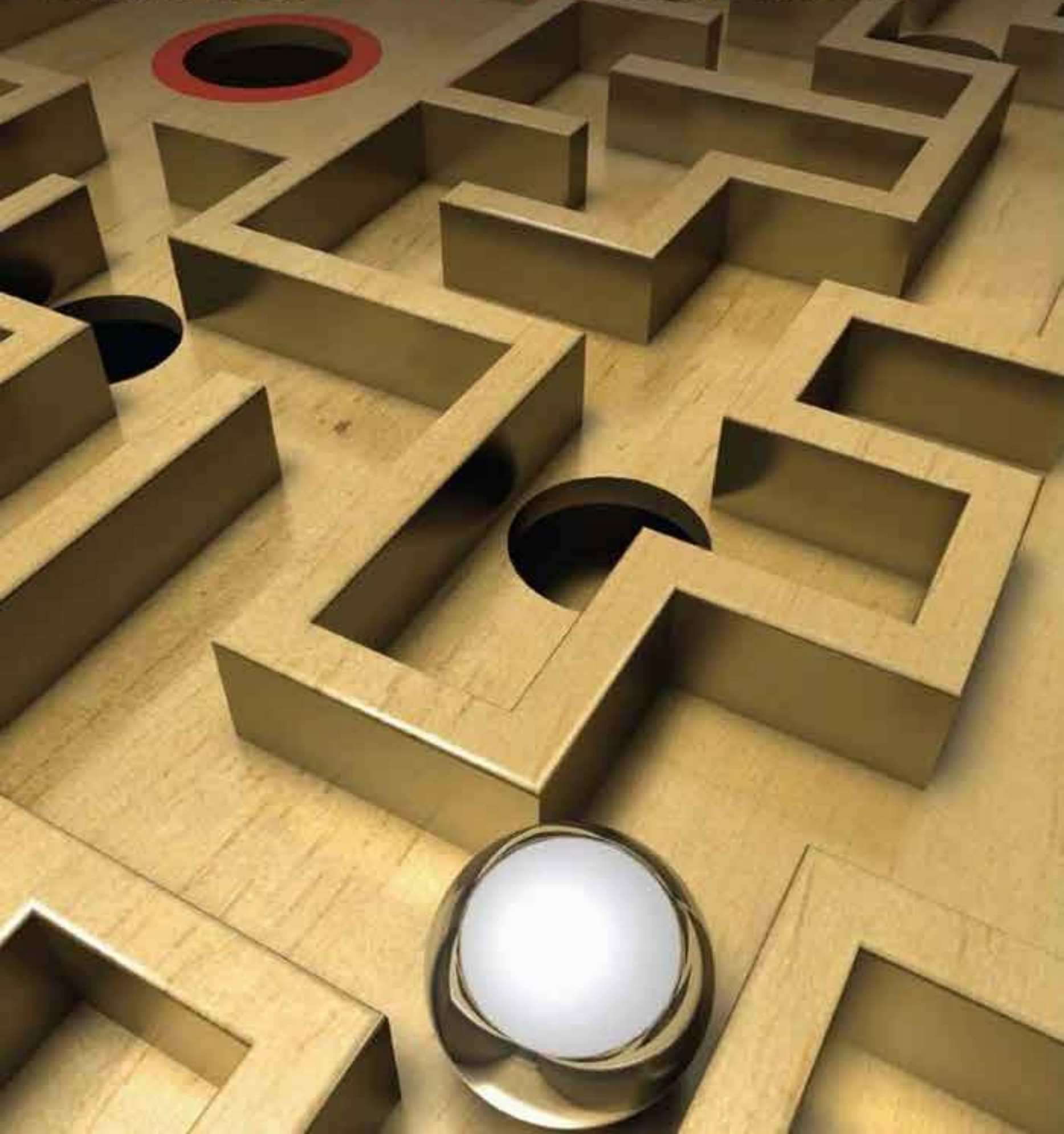


Marketing Strategy

Text and Cases *Sixth Edition*

Ferrell | Hartline



Marketing Strategy

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Marketing Strategy

Text and Cases

SIXTH EDITION

O. C. FERRELL

The University of New Mexico

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To my wife, Linda
O.C. Ferrell

To Huck and ReRe
Michael D. Hartline

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Preface

Welcome to one of the most interesting, challenging, and important topics in your business education. What makes marketing strategy so interesting, challenging, and important you ask? To begin, marketing strategy is interesting because (1) it is inherently people-driven and (2) it is never stagnant. A distinct blend of both art and science, marketing strategy is about people (inside an organization) finding ways to deliver exceptional value by fulfilling the needs and wants of other people (customers, shareholders, business partners, society at large), as well as the needs of the organization itself. Marketing strategy draws from psychology, sociology, and economics to better understand the basic needs and motivations of these people—whether they are the organization’s customers (typically considered the most critical), its employees, or its stakeholders. In short, marketing strategy is about people serving people.

For this reason, marketing strategy is interesting because it is never stagnant. The simple fact is that people change. A strategy that works today might not work tomorrow. Products that are popular today are forgotten next week. These truisms are important because truly understanding marketing strategy means accepting the fact that there are few concrete rules for developing and implementing marketing activities. Given the constant state of change in the marketing environment, it is virtually impossible to say that given “this customer need” and “these competitors” and “this level of government regulation” that Product A, Price B, Promotion C, and Distribution D will produce the best results. Marketing simply doesn’t work that way. The lack of concrete rules and the ever changing economic, sociocultural, competitive, technological, and political/legal landscapes make marketing strategy a terribly fascinating subject.

Now that you know why marketing strategy is so interesting, it should be easy to see why it is also challenging. A perfect marketing strategy that is executed flawlessly can still fail. Sometimes, organizations are lucky and have success despite having a terrible strategy and/or execution. The nature of marketing can make marketing planning quite frustrating.

Finally, the importance of marketing strategy is undeniable. No other business function focuses on developing relationships with customers—the lifeblood of all organizations (even non-profits). This statement does not diminish the importance of other business functions, as they all are necessary for an organization to be successful. In fact, coordination with other functions is critical to marketing success. However, without customers, and marketing programs in place to cultivate customer relationships, no organization can survive.

Our Focus

Given this marketing landscape, *Marketing Strategy: Text and Cases, 6th Edition* provides a practical, straightforward approach to analyzing, planning, and implementing marketing strategies. Our focus is based on the creative process involved in applying the knowledge and concepts of marketing to the development and implementation of marketing strategy. Our goal is to encourage students of marketing to think and act like a marketer. By discussing the key concepts and tools of marketing strategy, our emphasis on critical thinking, both analytical and creative, allows students to understand the essence of how marketing decisions fit together to create a coherent strategy.

Our approach in *Marketing Strategy: Text and Cases, 6th Edition* is also grounded in the development and execution of the marketing plan. Throughout the text, we provide a comprehensive planning framework based on conducting sound background research, developing market capabilities and competitive advantages, designing integrated marketing programs, and managing customer relationships for the long term. We also emphasize the need for integrity in the strategic planning process, as well as the design of marketing programs that are both ethical and socially responsible. We also stress the integration and coordination of marketing decisions with other functional business decisions as the key to achieving an organization's overall mission and vision. Throughout the text, we offer examples of successful planning and implementation to illustrate how firms face the challenges of marketing strategy in today's economy.

Purpose

We view strategic marketing planning not only as a process for achieving organizational goals, but also as a means of building long-term relationships with customers. Creating a customer orientation takes imagination, vision, and courage, especially in today's rapidly changing economic and technological environments. To help meet these challenges, our text approaches marketing strategy from both "traditional" and "cutting-edge" practices. We cover topics such as segmentation, creating a competitive advantage, marketing program development, and the implementation process with a solid grounding in traditional marketing, but also with an eye toward emerging practices. Lessons learned from the rise, fall, and reemergence of the dotcom sector, recent corporate scandals, and the most recent economic recession illustrate the importance of balancing the traditional and emerging practices of marketing strategy. Our text never loses sight of this balance.

Although our approach allows for the use of sophisticated research and decision-making processes, we have employed a practical perspective that permits marketing managers in any size organization to develop and implement a marketing plan. We have avoided esoteric, abstract, and highly academic material that does not relate to typical marketing strategy decisions in most organizations. The marketing plan framework that we utilize throughout the text has been used by a number of organizations to successfully plan their marketing strategies. Many companies report great success in using our approach partially due to the ease of communicating the plan to all functional areas of the business.

Target Audience

Our text is relevant for a number of educational environments, including undergraduate, graduate, and corporate training courses. At the undergraduate level, our text is appropriate for the capstone course or any upper-level integrating course such as "Marketing Management," "Marketing Strategy," or "Marketing Policy." At this level, the text provides an excellent framework to use with our included text-based cases, live-client cases, or a computer simulation. At the graduate level, our text is appropriate for courses addressing strategic marketing planning, competitive marketing strategies, or as a supplement for any simulation-based course. A growing segment of the market, corporate training, can utilize our text when educating business professionals interested in developing marketing plans of their own, or interpreting and implementing the plans of others.

Each of the twenty cases included in our text describes the strategic situations of real-world, identifiable organizations. Because these cases feature real situations, instructors have the option of using the case material as published, or they may give students the opportunity to update the cases by conducting research to find the latest information. Many additional resources for students and instructors can be found at our text's companion website, www.cengagebrain.com.

Key Features of the 6th Edition

The key features of *Marketing Strategy: Text and Cases, 6th Edition* include:

- *Revised and expanded coverage throughout the text of recent events in marketing practice by well-known global companies.*
- *A focus on the integration of the traditional marketing mix elements (product, price, distribution, and promotion) into a consistent marketing program. Consequently, the four separate marketing mix chapters have been condensed into a single chapter.*
- *A new chapter on Branding and Positioning (Chapter 7) that adds increased emphasis on using every element of the marketing program to achieve branding and positioning success.*
- *Five new cases written specifically for our text:*
 - Case 2, “Apple’s Winning Marketing Strategy,” focuses on Apple’s phenomenal rise to prominence through the use of masterful marketing, an entrepreneurial spirit, and “cool” branding.
 - Case 9, “Chevrolet: 100 Years of Product Innovation,” looks at Chevrolet’s use of product innovation and branding to create practical, sporty, and affordable automotive products that compete with strong domestic and foreign manufacturers.
 - Case 10, “Wyndham Worldwide Adopts a Stakeholder Orientation Marketing Strategy,” examines how Wyndham’s focus on stakeholder orientation has positioned the company as a global brand that is synonymous with quality, ethical leadership, customer satisfaction, and sustainability.
 - Case 13, “Zappos: Delivering Happiness,” explores the company’s unique business model and corporate culture, and how they influence its relationships with customers, employees, the environment, and its communities.
 - Case 15, “Netflix Fights to Stay Ahead of a Rapidly Changing Market,” looks at how the dominant rent-by-mail and video streaming company bested its chief rival, Blockbuster, and how the company must prepare for an uncertain future as the DVD rental sector approaches the end of its life cycle.
- *A complete revision of the twelve cases that have been carried over from the 5th edition of our text:*
 - Case 1, “USA Today: Innovation in an Evolving Industry,” explores how the nation’s largest daily newspaper has used continuous innovation to stay ahead of the technological and sociocultural shifts that threaten the very existence of the newspaper industry.
 - Case 3, “Monsanto Balances the Interests of Multiple Stakeholders,” focuses on Monsanto’s shift from a chemical company to one focused on biotechnology, and the resulting stakeholder concerns about safety and the environment that come with such a change.
 - Case 4, “New Belgium Brewing (A): Gaining Competitive Advantage Through Socially Responsible Marketing,” shows how a firm can use social responsibility and customer intimacy as key competitive advantages in the highly competitive craft beer market.
 - Case 5, “New Belgium Brewing (B): Developing a Brand Personality,” explains how New Belgium expanded its branding and communication strategy after the development of its “Brand Manifesto.”
 - Case 6, “Mattel Confronts Its Marketing Challenges,” looks at the threats that Mattel faces in its ongoing global operations, including changing customer preferences, competition, product liability, and declining sales.

- Case 7, “Mistine: Direct Selling in the Thai Cosmetics Market,” explores how Mistine’s value-based positioning moved the company to the top of the direct selling cosmetics market in Thailand.
- Case 8, “BP Struggles to Repair Its Tarnished Reputation” considers how BP’s growing reputation for sustainability was tarnished by the Gulf oil spill disaster.
- Case 11, “NASCAR: Can’t Keep a Good Brand Down,” looks at NASCAR’s marketing and branding successes and its newfound struggles to remain on top of the motorsports market and the #1 spectator sport in the U.S.
- Case 12, “IndyCar: Seeking a Return to Motorsports’ Fast Lane,” is an excellent companion to the NASCAR case. The case examines the reunification of U.S. open wheel racing and how the new IRL must reconnect with fans to improve its standing in the U.S. motorsports market.
- Case 14, “Sigma Marketing: Strategic Marketing Adaptation,” explores the innovation and market adaptation of this small, family-owned business as it grew from a regional printing company to a global specialty advertising firm.
- Case 16, “Gillette: Why Innovation May Not Be Enough,” examines Gillette’s history of product and marketing innovation, and how past success may not be enough to maintain supremacy in the global razor market.
- Case 17, “IKEA Slowly Expands Its U.S. Market Presence,” discusses how IKEA’s strategy of operational excellence may stand in the way of further expansion into the U.S. furniture and home furnishings market.
- *The inclusion of three new outside cases from the Ivey School of Business at the University of Western Ontario:*
 - Case 18, “Sushilicious: Standing Out in a Crowded Field,” examines the use of social media in the marketing campaign for a California sushi restaurant.
 - Case 19, “Trouble Brews at Starbucks,” looks at how the company’s rapid expansion actually worked against its long-term brand positioning and equity.
 - Case 20, “Groupon,” explores the rapid growth of the online coupon company, its business model, and whether its future growth could depend on finding a business partner to bring needed resources and capabilities to the table.
- *Our complete case package provides up-to-date coverage of topics that are important and relevant to marketing practice in the 21st century. These topics include innovation, social responsibility, sustainability, global sourcing, technology, corporate affairs, and entrepreneurship.*
- *An updated set of Marketing Plan Worksheets, provided in the Appendix. The worksheets reflect a concise approach to marketing plan development. However, the worksheets are comprehensive in scope to help ensure that students and/or managers do not omit important issues in developing strategic marketing plans.*
- *A continued user-friendly writing style that covers essential points without heavy use of jargon. The text has also been reduced from 12 chapters to 10 chapters without a loss in coverage.*

Instructor Resources

The Instructor Resource materials for the 6th edition have been updated to match the new organization of the text. These materials are available via an Instructor’s Resource CD-ROM or online at the password-protected instructor’s resource website.

These materials include:

- *A revised PowerPoint® package, which incorporates lecture outlines and summary of key points, as well as select figures and tables from the text.*
- *An updated Instructor's Manual, which includes the following:*
 - Chapter lecture outlines—These outlines for each chapter may be used to quickly review chapter content before class or to gain an overview of the entire text. The outlines can also be used by instructors to add their own personal notes and examples before class.
 - Case teaching notes—Our teaching notes use a consistent format to help instructors evaluate cases before use, or to assist instructors in leading case analysis and class discussion. Although there are many different approaches to using cases, our notes will help instructors identify key issues and alternatives as they relate to the content of the case and corresponding text chapters.
- *An updated Test Bank. These examination materials include a variety of multiple choice, true/false, and discussion questions. The Test Bank questions vary in levels of difficulty, and meet a full range of tagging requirements, so that instructors can tailor their testing to meet their specific needs.*

The updated instructor's resource website supports the text and cases. In addition to the instructor resources already mentioned, instructors will find lecture outlines, case teaching notes, and sample syllabi for use in their classes.

Student Resources

Our primary student resource is contained within the text. The Appendix includes a detailed set of marketing plan worksheets that assist students in developing marketing plans. The remaining student resources can be found online at our website:

- *A downloadable Microsoft Word version of the Marketing Plan Worksheets found in the Appendix. The worksheets are designed so students can fill-in material and edit the worksheets outside of class.*
- *Example marketing plans to help illustrate the format and writing style used in creating an actual marketing plan document.*
- *A downloadable Microsoft Word version of the Lessons from each chapter. This document provides a complete outline of each chapter so that students may add to and edit the lessons outside of class. Alternatively, the file can be used during class as a way to organize note taking.*
- *Online exercises for each chapter. These exercises allow students to practice the concepts learned in class.*
- *Online quizzes for each chapter. These quizzes help students prepare for course exams.*
- *A tutorial on how to perform a case analysis. The tutorial provides a suggested way to conduct cases analyses. Instructors may use this tutorial or provide one of their own.*

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Dr. Ferrell has served as an expert witness in many high-profile civil litigation cases related to marketing ethics. More recently he has assisted international corporations and worked with state regulatory agencies in modifying marketing programs to maintain compliance with both ethical and legal requirements. Currently, he is working with the National Association of State Boards of Accountancy to develop an ethical leadership certification for students. He has appeared on the NBC *Today* show and he has been quoted in national papers such as *USA Today*.

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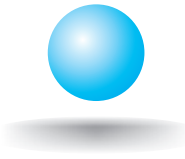
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Marketing Strategy

CHAPTER 1

Marketing in Today's Economy



Introduction

As noted in the opening *Beyond the Pages 1.1* story, competing in today's economy means finding ways to break out of commodity status to meet customers' needs better than competing firms. All organizations—both for-profit and nonprofit—require effective planning and a sound marketing strategy to do this effectively. Without these efforts, organizations would not be able to satisfy customers or meet the needs of other stakeholders. For example, having an effective marketing strategy allows Apple to develop popular products, such as the iPhone, iPad, and its MacBook line of notebook computers. Further, effective planning and strategy allows Cola-Cola to continue its leadership in soft drinks, make a key acquisition in its purchase of the Vitamin Water brand, all the while continuing its expansion into the lucrative Chinese market. These and other organizations use sound marketing strategy to leverage their strengths and capitalize on opportunities that exist in the market. Every organization—from your favorite local restaurant to giant multinational corporations; from city, state, and federal governments, to charities such as Habitat for Humanity and the American Red Cross—develops and implements marketing strategies.

How organizations plan, develop, and implement marketing strategies is the focus of this book. To achieve this focus, we provide a systematic process for developing customer-oriented marketing strategies and marketing plans that match an organization to its internal and external environments. Our approach focuses on real-world applications and practical methods of marketing planning, including the process of developing a marketing plan. The chapters of this book focus on the steps of this process. Our goal is to give the reader a deeper understanding of marketing planning, the ability to organize the vast amount of information needed to complete the planning process, and an actual feel for the development of marketing plans.

In this first chapter, we review some of the major challenges and opportunities that exist in planning marketing strategy in today's economy. We also review the nature and scope of major marketing activities and decisions that occur throughout the planning process. Finally, we look at some of the major challenges involved in developing marketing strategy.

Beyond the Pages 1.1

Thriving in Commodity Hell¹

Have you noticed that regardless of the industry, most goods and services offered by competing companies are eerily the same? Most household appliances, such as refrigerators, washing machines, and stoves, offer the same basic features and come in white, beige, black, or stainless steel. Virtually all Android-based smartphones offer the same features at similar prices. Even airline flights from New York to Los Angeles are essentially the same. Everywhere you look, most companies offer the same basic products to the same customer groups at roughly the same prices. This situation is referred to as “commodity hell” and it’s a tough situation for most companies. Commoditization is everywhere and is the result of mature markets where goods and services lack any real means of differentiation. Unfortunately for companies, when customers begin to see all competing products as offering roughly the same benefits, price is the only thing that matters.

Commoditization is a consequence of mature industries where slowing innovation, extensive product assortment, excess supply, and frugal consumers force margins to the floor. Since firms have few competitive differences, they are unable to increase margins. They must also spend a great deal on promotion to attract new customers. This situation makes firms more vulnerable to the entry of new competitors. Consider the airline industry. Notwithstanding a few minor differences, most air travelers see all airlines as being roughly the same. They all get passengers from Point A to Point B while offering the same basic customer services. This makes price the driving force in consumer decision-making and allows discount airlines such as Southwest and Jet Blue to steal customers away from traditional full-service carriers. This same precarious situation exists in a broad range of industries including telephone service, hotels, packaged goods, automobiles, household appliances, and retailing.

As you might expect, low price leaders can do quite well in commoditized markets. Southwest, for example, was profitable for over 33 years until the economic recession hit the industry hard in 2008.

Today, Southwest is expanding routes by acquiring rival companies (such as AirTran). The company also stands apart from others with its innovative “No Bag Fees” promotional campaign. Other firms, however, avoid commodity status through the most basic of marketing tactics: brand building. Here, firms break free from commodity status by developing a distinctive brand position that separates them and their products from the competition. Firms that come to mind are Apple, Coca-Cola, and Chick-fil-A. By offering compelling reasons for consumers to buy products, brand building allows firms to increase margins. Apple, in particular, enjoys the highest profit margins of any firm in the technology sector.

Starbucks is another case in point. Starbucks clearly sells one of the most commoditized, ubiquitous products of all time: coffee. Starbucks Chairman Howard Schultz, however, does not accept that his firm is in the coffee business. Instead, Schultz sees Starbucks as a “third place” to hang out (with home and work being number 1 and number 2, respectively). Through this mentality, Starbucks offers its customers much more than coffee, including wireless Internet access, music, food, and relaxation. Starbucks has continued its brand-building activities by introducing breakfast combos, an instant coffee (Via), and the continued push of its Seattle’s Best brand into restaurants, offices, hospitals, and vending machines.

Getting out of commodity hell is not an easy feat. To do so, firms must give consumers a compelling reason to buy their products over competing products. Ultimately, winning the commodity game is all about innovation. Consider the firms that top *BusinessWeek’s* list of the World’s Most Innovative Companies for 2011 (in order): Apple, Twitter, Facebook, Nissan, Groupon, and Google. Each of these companies offers innovative products, processes, or experiences that stand apart from the competition; yet each competes in mature industries known for commoditization. These companies prove that innovation and good marketing strategy are the antidotes for commodity hell.

The Challenges and Opportunities of Marketing in Today's Economy

Traditional ideas about marketing strategy began to change forever during the mid 1990s. Advances in computer, communication, and information technology forever changed the world and the ways that marketers reach potential customers. The collapse of the dot-com bubble in the late 1990s was followed by a historic collapse of the world-wide economy in 2008. The powerhouse companies of the past have weakened and lost relevance in an economy marked by constant change and consumer skepticism. Consider these fundamental changes to marketing and business practice, as well as our own personal buying behavior:

- **Power Shift to Customers.** Perhaps the single most important change during the last two decades is the shift in power from marketers to consumers. Rather than businesses having the ability to manipulate customers via technology, customers often manipulate businesses because of their access to information, the ability to comparison shop, and the control they have over spending. Individual consumers and business customers can compare prices and product specifications in a matter of minutes. Using a smartphone and the Amazon app, customers can walk Target's aisles, scan bar codes to check prices on Amazon, and order items for two-day delivery while in the store. In other cases, customers are able to set their own prices, such as purchasing airline tickets at Priceline.com. Customers can now interact with one another, as merchants such as Amazon and eBay allow customers to share opinions on product quality and supplier reliability. As power continues to shift to customers, marketers have little choice but to ensure that their products are unique and of high quality, thereby giving customers a reason to purchase their products and remain loyal to them.
- **Massive Increase in Product Selection.** The variety and assortment of goods and services offered for sale on the Internet and in traditional stores is staggering. In grocery stores alone, customers are faced with countless options in the cereal and soft drink aisles. The growth in online retailing now allows customers to purchase a car from CarsDirect, handmade, exotic gifts from Mojo Tree (www.mojotree.co.uk), or a



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Consumers can instantly find competitors' prices while in the store.

case of their favorite wine from Wine.com. Increased transaction efficiency (e.g., 24/7 access, delivery to home or office) allows customers to fulfill their needs more easily and conveniently than ever before. Furthermore, the vast amounts of information available online has changed the way we communicate, read the news, and entertain ourselves. Customers can now have the news delivered to them automatically via smartphone apps, such as Flipboard, that pull from hundreds of sources. This radical increase in product selection and availability has exposed marketers to inroads by competitors from every corner of the globe.

- Audience and Media Fragmentation.** Changes in media usage and the availability of new media outlets have forced marketers to rethink the way they communicate with potential customers. Since the advent of cable television in the 1970s, mass media audiences have become increasingly fragmented. Television audiences, for example, shifted from the big three networks (ABC, CBS, NBC) and began watching programming on ESPN, HGTV, Nickelodeon, and the Discovery Channel. When the growth of the Internet, satellite radio, and mobile communication is added to this mix, it becomes increasingly difficult for marketers to reach a true mass audience. Media audiences have become fragmented due to (1) the sheer number of media choices we have available today, and (2) the limited time we have to devote to any one medium. Today, customers increasingly get information and news from Facebook and Twitter rather than the *New York Times* or CBS. They spend a growing amount of time online or interacting with handheld devices than they do reading magazines or watching television. As shown in Exhibit 1.1, consumer usage of traditional media is declining, while the usage of Internet and mobile media is on the rise. However, despite the challenge of reaching mass audiences today, media fragmentation does have a big advantage: It is easier to reach small, highly targeted audiences who are more receptive to specific marketing messages.
- Changing Value Propositions.** Even before “The Great Recession” began in 2008, consumers and business buyers were already facing increasing costs associated with energy, gasoline, food, and other essentials. Then, as the economy weakened, buyers were forced to tighten their belts and look for other ways to lower expenses. This trend actually began after the dot-com collapse as consumers saw for the first time that they could bypass some types of firms and do things for themselves. For example, travel agents and real estate agents have been hit hard by e-commerce. Many customers now turn to Travelocity and Expedia, rather than travel agents, for

EXHIBIT 1.1 Change in Daily Media Usage by U.S. Adults, 2008–2011

	Percent Change (%)
Television and Video	7.9
Internet	21.9
Radio	-7.8
Mobile	103.1
Newspapers	-31.8
Magazines	-28.0
Other	0.0

Source: Media Literacy Clearinghouse, “Media Use Statistics,” <http://www.frankwbaker.com/mediause.htm>, accessed July 18, 2012.

assistance in booking airline tickets, cruises, or hotel stays. A similar change has taken place in the real estate industry as buyers are moving their house hunting online, while sellers are increasingly taking the “for sale by owner” route. Consequently, many marketers learned a tough lesson: In situations where customers see goods and services as commodities, they will turn to the most convenient, least-expensive alternative.

Today, many of these same consumers face pay cuts or losing their jobs in addition to increased expenses. These and other economic hardships have forced consumer and business buyers to rethink value propositions and focus on the importance of frugality. The effects on business have been dramatic. For example, Kodak filed for Chapter 11 bankruptcy in early 2012 in the face of a highly commoditized market and stiff competition from other camera makers and smartphones with much improved camera technology. As consumers realized that the best camera was the one they had with them (i.e., their smartphones), they began to shy away from traditional camera makers like Kodak.² A similar shakeout is happening in the book retailing segment. Borders, for instance, closed its doors after fierce competition from Barnes & Noble, Amazon, Walmart, and Target lured its shoppers away. Likewise, we are just beginning to see the effects of e-book readers, like Amazon's Kindle, and personal publishing solutions, such as Apple's iBooks, on the book publishing industry. Because books have become highly commoditized, consumers typically search for the lowest prices rather than the fringe benefits offered by traditional bookstores. E-book readers add to that by being more ecologically advantageous. This is the essence of being frugal, as customers look for ways to cut spending on unnecessary parts of their lives.

- **Shifting Demand Patterns.** In some cases, changes in technology have shifted customer demand for certain product categories. News is one well-known example, where traditional newspapers are slowing disappearing while online and mobile news continues to grow. Now, many newspaper companies have folded, some are on the brink of folding, while others have cut publication to only a few days per week. Another example is the explosive growth in the digital distribution of music and video. The success of Apple's iPod and iTunes, YouTube, and Netflix, along with the continuing integration of television and computers, has dramatically shifted demand for the recording and movie industries. Hollywood film studios are grappling with soft demand in theatres and the declining popularity of DVDs as customers increasingly look for online movie options, or for other forms of entertainment such as video games. This trend ultimately led to the demise of Blockbuster video in 2011.
- **Privacy, Security, and Ethical Concerns.** Changes in technology have made our society much more open than in the past. As a result, these changes have forced marketers to address real concerns about security and privacy, both online and offline. Businesses have always collected routine information about their customers. Now, customers are much more attuned to these efforts and the purposes for which the information will be used. Though customers appreciate the convenience of e-commerce and mobile access to information, they want assurances that their information is safe and confidential. Concerns over privacy and security are especially acute with respect to online businesses such as Facebook, Google, and mobile devices that can potentially track every move we make, literally. These same concerns are also keen with respect to children. For example, many well-known and respected companies, including Mrs. Fields Cookies, Sony BMG, and Hershey Foods, have been fined for violating the standards of the Children's Online Privacy Protection Act (COPPA). For example, Playdom, Inc., an online gaming company owned by Disney,

EXHIBIT 1.2 The Children's Online Privacy Protection Act (COPPA)

The Children's Online Privacy Protection Act applies to operators of commercial websites and online services that attempt to collect personal information from children under the age of 13. The law explains what must be included in the firm's privacy policy, when and how to seek verifiable consent from a parent or guardian, and the firm's responsibilities to protect children's privacy and safety. Firms cannot evade the law's provisions by claiming that children under 13 cannot visit their sites; nor can they make information optional or ask the visitor's age.

In implementing the provisions of COPPA, the FTC issued the Children's Online Privacy Protection Rule, which is designed to give parents control over the information that is collected from their children. The rule requires website operators to:

- Post a description of its privacy policy on the site's homepage and any other area where personal information is collected.
- Provide notice to parents about the site's information collection practices. This full disclosure must describe (1) the type of information collected, (2) why the information is being collected, (3) how the information will be used and stored, (4) whether the information will be disclosed to third parties, and (5) parental rights with regard to information content and usage.
- Obtain verifiable parental consent to the collection and use of a child's personal information for internal use. The operator must also give parents the opportunity to choose not to have this information disclosed to third parties.
- Give parents access to their child's information, give them the right and means to review and/or delete this information, and give parents the choice to opt out of the future collection or use of the information.
- Not require that children provide more information than is reasonably necessary to participate in an activity. Children cannot be required to provide information as a condition of participation.
- Maintain the security, confidentiality, and integrity of all personal information collected from children.

Source: United States Federal Trade Commission, Bureau of Consumer Protection, <http://business.ftc.gov/privacy-and-security/children's-privacy>.

paid a \$3 million fine to the Federal Trade Commission for collecting, using, and disclosing personal information from children under the age of 13 without their parents' permission. This was the largest civil penalty ever levied for a violation of COPPA, which is overviewed in Exhibit 1.2.³

- **Unclear Legal Jurisdiction.** When a company does business in more than one country (as many Internet-based firms do), that company often faces a dilemma with respect to differing legal systems. Today, this difference is especially keen for firms that do business in both the U.S. and China. Google, for example, faces a difficult situation in dealing with the Chinese government's censorship demands. Though Google is a U.S. firm, it must comply with the Chinese request by operating a completely separate search service that censors information considered sensitive by the Chinese government.⁴ Doing business in China is also an issue with respect to protection of intellectual property rights, where Chinese laws do not offer the same protections found in the U.S. For example, the U.S. International Trade Commission estimates that Chinese piracy costs the U.S. economy in excess of \$48 billion each year. Most of this is in the information sector, with high-tech and manufacturing also showing sizable losses due to infringements of intellectual property rights by Chinese firms.⁵

Another important legal issue involves the collection of sales tax for online transactions. In the early days of e-commerce, most online merchants did not collect sales taxes for online transactions—giving them a big advantage against store-based merchants. In fact, a 1992 U.S. Supreme Court decision exempted out-of-state retailers from collecting sales taxes in states where they had no physical presence. States countered that they were losing millions in yearly tax revenue, but were poorly organized to mount a collection effort. In 2003, major retailers—including Walmart, Target, and Toys “R” Us—in an agreement with a consortium of 38 states and the District of Columbia, agreed to collect online sales taxes. Amazon plans to collect sales tax from consumers in an additional eight states over the next four years. However, many online merchants still did not charge sales taxes. Today, states—much more organized than before—estimate that they lose a collective \$23 billion per year in lost tax revenue. More than a dozen states have passed laws to force the collection of online sales taxes, and similar legislation is pending in ten other states.⁶

Although the full effect of these challenges will not be recognized for some time, circumstances have forced businesses to move ahead by adjusting their marketing activities at both the strategic and tactical levels. As we review the major marketing concepts and activities in this chapter, we will look at how today's challenges have affected strategic planning in these areas.

Basic Marketing Concepts

Marketing is many different things. Many people, especially those not employed in marketing, see marketing as a function of business. From this perspective, marketing parallels other business functions such as production/operations, research, management, human resources, and accounting. As a business function, the goal of marketing is to connect the organization to its customers. Other individuals, particularly those working in marketing jobs, tend to see marketing as a process of managing the flow of products from the point of conception to the point of consumption. The field's major trade organization, the American Marketing Association, has changed the definition of marketing over time to reflect changes in the economic and business environments. From 1985 until 2005, the AMA defined marketing this way:

“Marketing is 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 objectives.”⁷

Note how this definition focuses on the four Ps, or the marketing mix. In 2005, the AMA changed the definition to better reflect the realities of competing in the marketplace:

“Marketing is an organizational function and a set of processes for creating, communicating, and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders.”⁸

This definition shifts the focus away from the marketing mix and toward value creation for customers. In 2007, the AMA changed the definition of marketing again:

“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.”⁹

Notice that the changes in the definition are not merely cosmetic in nature. The older definitions focused on the process of marketing to deliver value and manage customer relationships. The most recent definition shifts from “value” to “offerings that have value.” Also, the notion of stakeholders is made more explicit. Why would the AMA make these changes? One reason has to do with commoditization as discussed in *Beyond the Pages 1.1*. Breaking free from commodity status means finding ways to differentiate the offering. The new definition recognizes that differentiation can come from any part of the offering, whereas older conceptualizations of marketing placed the onus of differentiation on the product itself. The second reason has to do with marketing’s broader role in today’s corporation. Firms don’t just sell products; they sell the firm as a whole. Corporate relationships with partners, media, government, investors, employees, and society are every bit as important as relationships with customers. These types of relationships—which grow and thrive on exceptional value—are an absolute necessity in the commodity-driven status of many product markets. While the older definitions of marketing had a decidedly transactional focus, the new definition emphasizes long-term relationships that provide value for both the firm and its stakeholders.

A final way to think about marketing relates to meeting human and social needs. This broad view links marketing with our standard of living, not only in terms of enhanced consumption and prosperity, but also in terms of society’s well being. Through marketing activities, consumers can buy cars from South Korea and wines from South Africa; and organizations can earn a viable profit, making both employees and shareholders happy. However, marketing must also bear responsibility for any negative effects it may generate. This view demands that marketers consider the social and ethical implications of their actions, and whether they practice good citizenship by giving back to their communities. As exemplified in the New Belgium Brewing case at the end of the text, firms can successfully meet human and social needs through socially responsible marketing and business practices.

Let’s take a closer look at several basic marketing concepts. As we will see, ongoing changes in today’s economy have forever altered our way of thinking about these foundational aspects of marketing.

What Is a Market?

At its most basic level, a *market* is a collection of buyers and sellers. We tend to think of a market as a group of individuals or institutions that have similar needs that can be met by a particular product. For example, the housing market is a collection of buyers and sellers of residential real estate, while the automobile market includes buyers and sellers of automotive transportation. Marketers or sellers tend to use the word “market” to describe only the buyers. This basic understanding of a market has not changed in a very long time. What has changed, however, is not so much the “what” but the “where” of a market; that is, the location of the buyers and sellers. In both consumer markets (like housing and automobiles) and business markets (like replacement parts and raw materials), the answer to the “where” question is quickly becoming “anywhere” as markets become less defined by geography.

Until recently, marketers have considered a market to be a physical location where buyers and sellers meet to conduct transactions. Although those venues (e.g., grocery stores, malls, flea markets) still exist, technology mediates some of the fastest growing markets. The term *marketspace* has been coined to describe these electronic marketplaces unbound by time or space.¹⁰ In a marketspace, physical goods, services, and information are exchanged through computer networks. Some of the largest marketspaces, such as Amazon, eBay, and Monster, are now household names. In fact, Amazon has become

the marketspace equivalent of a shopping mall as the company now sells shoes, apparel, jewelry, beauty aids, and sporting goods in addition to its traditional offerings of books and electronics. Marketspaces also exist in the business-to-business realm. The shift from marketplaces to marketspaces has significant ramifications for marketers. The fact that customers can shop, place orders, and exchange information 24/7 means that these businesses must be capable of operating in that same time frame. In effect, marketspace operators never take a break at closing time—they never close. It also means that firms lose some control over the information that is disseminated about their company or products. Through blogs, discussion forums, or even Twitter, customers can exchange information about a marketspace outside the marketspace itself. Furthermore, the substitution of technology for human interaction can be both a blessing and a curse. Some marketspaces, like CarsDirect, are successful because they eliminate the hassle of dealing with another human in the buying process. Many customers, however, have been slow to embrace marketspaces because they lack the human element. In these cases, the design and implementation of the online experience is a serious challenge for marketspace operators. Finally, the wealth of information available through today's marketspaces not only makes customers more educated than ever before, it also gives customers increased power through comparison shopping and price negotiation.

Another interesting shift related to markets is the advent of metamarkets and metamediaries. A *metamarket* is a cluster of closely related goods and services that center around a specific consumption activity. A *metamediary* provides a single access point where buyers can locate and contact many different sellers in the metamarket.¹¹ Assume for example that you are engaged to be married. How many different buying decisions will you and your fiancé have to make in the coming months? How many newspaper ads, websites, and magazines will you explore? Although the businesses and decisions are diverse, they all converge on the single theme of wedding planning. This is the driving principle behind a metamarket. Exhibit 1.3 shows examples of common metamarkets and metamediaries. Although customers don't use these terms, they fully understand the concept of finding information and solutions in one place. For example, iVillage (www.ivillage.com) has become the Internet's preeminent metamediary with respect to women's issues. One of its most popular sections deals with pregnancy and parenting, which has become the first stop for many anxious parents in need of advice. Metamediaries like iVillage fulfill a vital need by offering quick access and one-stop shopping to a wide variety of information, goods, and services.

What Is Exchange?

Closely related to the concept of a market, our ideas about exchange have changed in recent years. *Exchange* is traditionally defined as the process of obtaining something of value from someone by offering something in return; this usually entails obtaining products for money. For exchange to occur, five conditions must be met:

1. **There must be at least two parties to the exchange.** Although this has always been the case, the exchange process today can potentially include an unlimited number of participants. Online auctions provide a good example. Customers who bid on an item at eBay may be one of many participants to the exchange process. Each participant changes the process for the others, as well as the ultimate outcome for the winning bidder. Some auctions include multiple quantities of an item, so the potential exists for multiple transactions within a single auction process.
2. **Each party has something of value to the other party.** Exchange would be possible, but not very likely, without this basic requirement. The Internet has exposed us to a vast array of goods and services that we did not know existed previously. Today, not