

Pride | Ferrell

Foundations of
MARKETING

Seventh Edition



SEVENTH EDITION | PRIDE & FERRELL

FOUNDATIONS OF MARKETING

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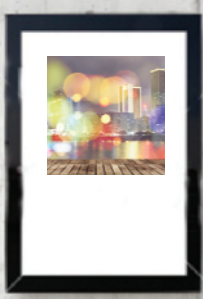
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To Nancy, Allen, Carmen, Mike, Ashley, Charlie, J.R., and Gracie Pride
To James Collins Ferrell



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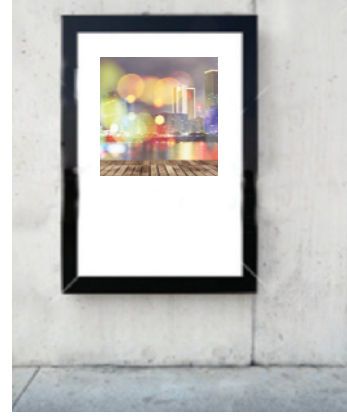
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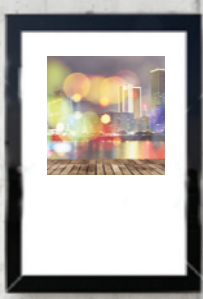
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preface

THE IMPORTANCE OF MARKETING TO BUSINESS

Foundations of Marketing 7th edition has been carefully revised to reflect the dynamic changes in the world of marketing. All students, regardless of their major, need a solid foundation in marketing to advance their careers. There is ample evidence that marketing functions within the organization are becoming more important to achieve success. All organizations—both for-profit and non-profit—need effective marketing strategies to achieve their objectives. This new edition of *Pride & Ferrell Foundations of Marketing* has been revised to provide the concepts, frameworks, and approaches to decision making that ensure comprehensive understanding of marketing. Our approach is to provide a holistic understanding and decision-making experiences for students to engage in active learning. Therefore, our perspective goes beyond learning terminology and memorizing concepts to integrating knowledge through the use of examples, exercises, cases, and MindTap. MindTap is an online personalized teaching experience with relevant assignments that guide students to analyze, apply, and improve thinking, allowing them to measure skills and outcomes with ease.

Pride & Ferrell Foundations of Marketing facilitates students in mastering essential concepts. Therefore, evolving marketing areas such as digital marketing and social networking, marketing ethics and social responsibility, as well as major decision variables related to product, price, distribution, and promotion have received complete revision based on available research and marketing best practices. Examples and boxes have been replaced to be as up-to-date as possible.

We also provide numerous ancillary materials to aid in student comprehension of marketing concepts as well as increasing instructor resources for teaching this important material. Online materials include quizzes, PowerPoint presentations, videos, and flashcards. Our marketing video case series enables students to learn about how real-world companies address marketing challenges. Our Interactive Marketing Plan Worksheets and video program provide students with practical knowledge of the challenges and the planning process of launching a new product. Together these revisions and additional materials will assist students in gaining a full understanding of pertinent marketing practices.

Online social networking has become pivotal to the marketing discipline. Most discussions about marketing today bring up issues like how digital media can lower costs, generate awareness, build better relationships with customers, and achieve improved marketing research. All elements of the marketing mix should be considered when using digital media. We discuss how digital media and social networking tools can create effective digital marketing strategies that can enhance marketing efforts. Also, since social media is applicable to many areas of marketing, the entire book integrates important digital marketing concepts and examples.

Specific details of this extensive revision are available in the transition guide in the *Instructor's Resource Manual*. We have also made efforts to improve all teaching ancillaries and student learning tools. PowerPoint presentations continue to be a very popular teaching device, and a special effort has been made to upgrade the PowerPoint program to enhance classroom teaching. The *Instructor's Manual* continues to be a valuable tool updated with

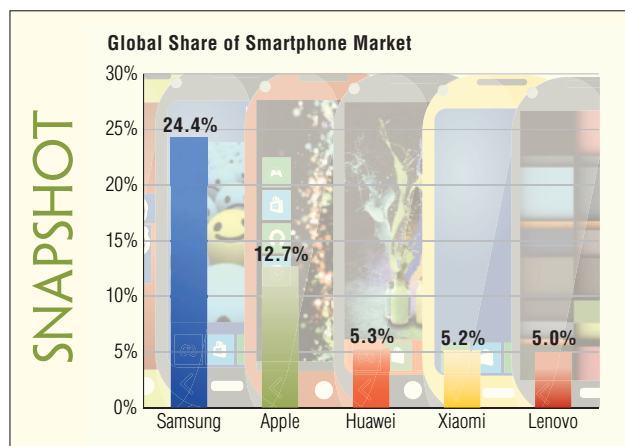
engaging in-class activities and projects. The authors and publisher have worked together to provide a comprehensive teaching package and ancillaries that are unsurpassed in the marketplace.

The authors have maintained a hands-on approach to teaching this material and revising the text and its ancillaries. This results in an integrated teaching package and approach that is accurate, sound, and successful in reaching students. The outcome of this involvement fosters trust and confidence in the teaching package and in student learning outcomes. Student feedback regarding this textbook is highly favorable.

WHAT'S NEW TO THIS EDITION?

Our goal is to provide the most up-to-date content possible, including concepts, examples, cases, exercises, and data. Therefore, in this revision there are significant changes that make learning more engaging and interesting to the students. The following information highlights the types of changes that were made in this revision.

- **Foundational content.** Each chapter has been updated with the latest knowledge available related to frameworks, concepts, and academic research. These additions have been seamlessly integrated into the text. Many examples are new and a review of footnotes at the end of the chapters reveals where new content has been added. Many of the new examples and content changes have been updated.
- **Opening vignettes: *Marketing Insights*.** All of the chapter-opening vignettes are new. They are written to introduce the general content of each chapter by focusing on actual entrepreneurial companies and how they deal with real-world situations.
- **Boxed features.** Each chapter includes new or updated boxed features that highlight green marketing, marketing entrepreneurs, emerging trends in marketing, or controversial issues in marketing. The majority of the boxed features are new to this edition. A few have been significantly updated and revised.
- **New Snapshot features.** All of the Snapshot features are new and engage students by highlighting interesting, up-to-date statistics that link marketing theory to the real world.
- **New research.** Throughout the text we have updated content with the most recent research that supports the frameworks and best practices for marketing.



*Third quarter, 2014
Source: Gartner, December 2014.

MARKETING INSIGHTS

Chobani Uses Test Market Café for New Products

Chobani Yogurt has found a way to earn profits and test market products through its Chobani Café, which opened in SoHo in New York City in 2012. The café quickly became a hit among consumers, being profitable and doubling in size. Most of the items offered use Chobani yogurt in some capacity. Leading Chobani to experiment with its yogurt products and to invite consumers to experience these products in new and exciting ways.

Chobani Café is inspired by Mediterranean cultural influences. Its yogurt creations include the usual combinations such as fresh fruit and maple.

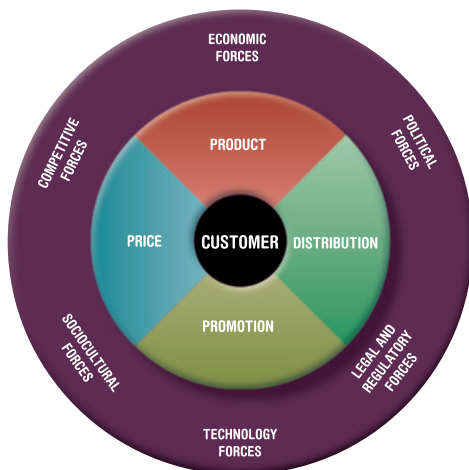
Positive customer reviews have led Chobani to look beyond its core product. The company is releasing its first breakfast item, Chobani Oats, a mixture of yogurt with fruit and oats, as well as a line of savory dips based upon store tests. It is also introducing new flavors that were in high demand at its café. For instance, because the café's pumpkin spice yogurt was so popular, Chobani released it to supermarkets. The ability to test its products on customers has been widely successful for Chobani.

However, as with all test marketing, Chobani faces risks from competitors. Dannon and Yoplait



Situational Influences

A wedding is a major event in people's lives. Purchases associated with major life events are very important. This reason for purchase results in customers taking considerable time and going to substantial efforts to ensure that the selection is just right.



- **New illustrations and examples.** New advertisements from well-known firms are employed to illustrate chapter topics. Experiences of real-world companies are used to exemplify marketing concepts and strategies throughout the text. Most examples are new or updated to include digital marketing concepts as well as several new sustainable marketing illustrations.
- **End-of-chapter video cases.** Each chapter contains one video case, profiling firms to illustrate concrete application of marketing concepts and strategies. Some of our video cases are new and others have been revised.

FEATURES OF THE BOOK

As with previous editions, this edition of the text provides a comprehensive and practical introduction to marketing that is both easy to teach and to learn. *Foundations of Marketing* continues to be one of the most widely adopted introductory marketing textbooks in the world. We appreciate the confidence that adopters have placed in our textbooks and continue to work hard to make sure that, as in previous editions, this edition keeps pace with changes. The entire text is structured to excite students about the subject and to help them learn completely and efficiently:

- An *organizational model* at the beginning of each part provides a “road map” of the text and a visual tool for understanding the connections among various components.
- *Objectives* at the start of each chapter present concrete expectations about what students are to learn as they read the chapter.
- Every chapter begins with an opening vignette. This feature provides an example of the real world of marketing that relates to the topic covered in the chapter. After reading the vignette, the student should be motivated to want to learn more about concepts and strategies that relate to the varying topics. Students will learn about topics, such as the challenges Facebook is encountering as it markets to different countries and how direct selling can be enhanced with social media. Students will also be introduced to such companies as Kellogg, Lord & Taylor, T.J. Maxx, Chobani, and CVS.
- Boxed features—*Emerging Trends* and *Going Green*—capture dynamic changes in marketing. These changes are influencing marketing strategies and customer behavior. Strong feedback from adopters indicated the need for coverage in these areas.
- The *Emerging Trends* boxes cover such marketing phenomena as branded content, product placement, and the trend toward gluten-free food. Featured companies include Outerwall, BuzzFeed, Bling Rental, McDonald's, and Uber.

EMERGING TRENDS IN MARKETING

The Gluten-Free Trend Is Rising, but Is It Healthy?

Marketers are taking advantage of the growing trend for gluten-free foods. Gluten, a protein found in grain, causes intestinal damage in those with celiac disease. The gluten-free food and beverage industry is valued at \$10.5 billion, and growth is skyrocketing. About one-third of Americans try to avoid foods heavy in gluten. This motivates food marketers to offer gluten-free foods, especially as they are pricier than their counterparts.

Many people believe that ridding gluten from their diet is healthy. Others have lost weight switching to a gluten-free diet. One likely reason is that they often end up consuming fewer carbohydrates. It is also believed that a gluten-free diet helps clear up skin problems. Companies like General Mills are increasingly releasing gluten-free

items. Specialized organizations like Glutino have emerged that *only* release gluten-free products.

Despite the trend toward gluten-free food, many question whether eliminating gluten is healthy. Only 0.75 percent of people are totally gluten intolerant. An additional 18 million Americans may have sensitivity to gluten without experiencing intestinal damage. The major problem with consuming gluten-free food is that one-third of people think it is healthier, when this is not necessarily true. Often removing gluten also eliminates healthy vitamins and minerals good for the body. Additionally, some food marketers are labeling their products as being gluten free when they never contained gluten to begin with.²

- The *Going Green* boxes introduce students to such topics as electric vehicles, green energy, and products made from reused or recycled materials. Featured companies include Tesla, Walmart, BMW, Procter & Gamble, and Viridian Energy.

GOING GREEN

GE's Ecomagination Saves and Earns Billions

Going Green: Tesla's Electrifying Commitment to Sustainability

Tesla Motors, headed by tech-savvy entrepreneur Elon Musk, says its goal is to "accelerate the world's transition to electric mobility with a full range of increasingly affordable electric cars. We're catalyzing change in the industry." The current product line, available in 37 countries, includes cars and SUVs priced about \$70,000, with lower-priced models soon to be introduced.

components that meet its exacting environmental and quality standards, internal experts develop, patent, and produce their own. Tesla invites other automakers to use its patents, and it says a few firms have already taken the company up on this unusual offer.

Now Tesla is spending \$5 billion to build the world's largest and most sophisticated vehicle-battery factory in Nevada. For environmental reasons, it is pioneering a supply chain to use only raw materials from North America at

MARKETING DEBATE

Is Anything Gained by Gender Targeting?

ISSUE: Does targeting children by gender reinforce stereotypes or limit play possibilities?

After 40 years of solely targeting girls for its Easy-Bake Oven, Hasbro introduced a gender-neutral version and aired commercials showing boys playing with the toy oven. This change made headlines because a teenage girl wanted to give her little brother the oven as a gift but couldn't find it in boy-friendly colors. She presented Hasbro with a petition signed by 1,000 supporters.

influence career choices through stereotyping. Hasbro isn't the only company that has faced such objections. After the Swedish government forced Top Toy to change its stereotyped gender targeting, the company's promotions featured girls with military toys and boys with kitchen appliance toys. Now some British and European retailers are beginning to use gender-neutral toy labeling and signage.

Toymakers target by gender so they can understand the specific needs and preferences of boys and girls and

- The *Marketing Debate* feature discusses controversial issues related to marketing, such as branding on campus, tracking shoppers in the store, the marketing of e-cigarettes, whether the customer is always right, and the advertising claims of Blue Buffalo.

- The *Entrepreneurship in Marketing* feature focuses on the role of entrepreneurship and the need for creativity in developing successful marketing strategies by featuring successful entrepreneurial companies like Protein Bar, GoldieBlox, Six Spoke, Bucketfeet, Alibaba, Square, and the Gin Kit.

ENTREPRENEURSHIP IN MARKETING

Supporting the Arts on Your Feet

Raaja Nemani and Aaron Firestein never expected to start a shoe company. When Firestein was traveling through Argentina, he met Nemani and gave his new friend a one-of-a-kind pair of hand-decorated sneakers to wear as he backpacked his way from country to country. Nemani was struck by the positive reactions to the artistic sneakers he wore as he trekked through 25 countries.

The two entrepreneurs soon teamed up to launch Chicago-based Bucketfeet, marketing sneakers and flip-flops.

footwear. Choosing from among thousands of original designs available on Bucketfeet's website or in selected stores, consumers can suit their own tastes and express themselves through what they wear on their feet.

Early on, Bucketfeet experienced some marketing stumbles as Nemani and Firestein learned to plan for the ups and downs of demand, gained experience with supply-chain vendors, and experimented with different styles and different ways of involving artists and consumers.

- *Key term definitions* appear in the margins to help students build their marketing vocabulary.
- Figures, tables, photographs, advertisements, and Snapshot features increase comprehension and stimulate interest.
- A complete *chapter review* covers the major topics discussed and is organized based upon the chapter objectives.
- The list of key concepts provides another end-of-chapter study aid to expand students' marketing vocabulary.
- *Issues for discussion and review* at the end of each chapter encourage further study and exploration of chapter content.
- The Marketing Applications are designed to facilitate students' comprehension of important topics and to enhance their critical thinking skills. Additional application questions have been included to help students quantify and apply marketing strategies. These questions have been developed based on a higher level of thinking as related to Bloom's taxonomy. The primary purpose of these questions is to guide students from a basic knowledge of marketing concepts to application, analysis, and synthesis of marketing activities. The Marketing Applications appear online.
- *Developing Your Marketing Plan* ties the chapter concepts into an overall marketing plan that can be created by completing the Interactive Marketing Plan activity found at www.cengagebrain.com. The *Developing Your Marketing Plan* feature allows students to explore each chapter topic in relation to developing and implementing a marketing plan.

- Each chapter has an end-of-chapter video case to help students understand the application of chapter concepts. Some examples of companies highlighted in the cases are New Belgium Brewing, AXE body spray, Zappos, Scripps Networks, and Nederlander.
- *Appendices* discuss marketing career opportunities, explore financial analysis in marketing, and present a sample marketing plan. All of these appendices appear online.
- A comprehensive *glossary* defines more than 625 important marketing terms.

TEXT ORGANIZATION

We have organized the six parts of *Foundation of Marketing* to give students a theoretical and practical understanding of marketing decision making.

Part 1 Strategic Marketing and Its Environment

In **Chapter 1**, we define marketing and explore several key concepts: customers and target markets, the marketing mix, relationship marketing, the marketing concept, and value-driven marketing. In **Chapter 2**, we look at an overview of strategic marketing topics, such as the strategic planning process; corporate, business-unit, and marketing strategies; the implementation of marketing strategies; performance evaluation of marketing strategies; and the components of the marketing plan. We examine competitive, economic, political, legal and regulatory, technological, and sociocultural forces as well as social responsibility and ethical issues in marketing decisions that can have profound effects on marketing strategies in **Chapter 3**.

Part 2 Marketing Research and Target Markets

In **Chapter 4**, we provide a foundation for analyzing buyers with a look at marketing information systems and the basic steps in the marketing research process. We look at elements that affect buying decisions to better analyze customers' needs and evaluate how specific marketing strategies can satisfy those needs. In **Chapter 5**, we deal with how to select and analyze target markets—one of the major steps in marketing strategy development.

Part 3 Customer Behavior and E-Marketing

We examine consumer buying decision processes and factors that influence buying decisions in **Chapter 6**. In **Chapter 7**, we explore business markets, business customers, the buying center, and the business buying decision process. **Chapter 8** focuses on the actions, involvement, and strategies of marketers that serve international customers. In **Chapter 9**, we discuss digital marketing, social media, and social networking.

Part 4 Product and Price Decisions

In **Chapter 10**, we introduce basic concepts and relationships that must be understood to make effective product decisions as well as branding, packaging, and labeling. We analyze a variety of dimensions regarding product management in **Chapter 11**, including line extensions and product modification, new-product development, product deletions, and the nature, importance, and characteristics of services. In **Chapter 12**, we initially discuss price and non-price competition. Then we analyze the eight stages of the process marketers use to establish prices. We explore a variety of pricing topics such as demand, elasticity, marginal analysis, break-even analysis, the basis for pricing, and pricing strategies.

Part 5 Distribution Decisions

In **Chapter 13**, we look at supply-chain management, marketing channels, and the decisions and activities associated with the physical distribution of products, such as order processing, materials handling, warehousing, inventory management, and transportation. **Chapter 14** explores retailing and wholesaling, including types of retailers and wholesalers, direct marketing and selling, and strategic retailing issues.

Part 6 Promotion Decisions

We discuss integrated marketing communications in **Chapter 15**. The communication process and major promotional methods that can be included in promotion mixes are described. In **Chapter 16**, we analyze the major steps in developing an advertising campaign. We also define public relations and how it can be used. **Chapter 17** deals with personal selling and the role it can play in a firm's promotional efforts. We also explore the general characteristics of sales promotion and describe sales promotion techniques.

A COMPREHENSIVE INSTRUCTIONAL RESOURCE PACKAGE

For instructors, this edition of *Foundations of Marketing* includes an exceptionally comprehensive package of teaching materials.

Instructor's Manual

The *Instructor's Manual* has been revamped to meet the needs of an engaging classroom environment. It has been updated with diverse and dynamic discussion starters, classroom activities, and group exercises. It includes such tools as:

- Quick Reference Guide
- Purpose Statement
- Integrated Lecture Outline
- Discussion Starter recommendations that encourage active exploration of the in-text examples
- Class Exercises, Semester Project Activities, and Chapter Quizzes
- Suggested Answers to end-of-chapter exercises, cases, and strategic cases
- Guide to teaching Role-Play Team Exercises

Test Bank

The test bank provides more than 3,000 test items including true/false, multiple-choice, and essay questions. Each objective test item is accompanied by the correct answer, appropriate Learning Objective, level of difficulty, Bloom's level of thinking, Interdisciplinary Learning Outcomes, and Marketing Disciplinary Learning Outcomes. Cengage Learning Testing Powered by Cognero is a flexible, online system that allows you to:

- author, edit, and manage test bank content from multiple Cengage Learning solutions
- create multiple test versions in an instant
- deliver tests from your LMS, your classroom, or wherever you want

American Marketing Association Professional Certified Marketer®

The American Marketing Association has recently started offering marketing graduates the opportunity of adding the AMA PCM® credentials to their undergraduate or MBA degree, which can serve as a symbol of professional excellence that affirms mastery of marketing knowledge and commitment to quality in the practice of marketing. Certification, which is voluntary, requires passing a rigorous and comprehensive exam and then maintaining your certification through continuing education. Earning your AMA PCM® certification demonstrates to employers, peers and clients that you:

- Have mastered essential marketing knowledge and practices.
- Go the extra mile to stay current in the marketing field.
- Follow the highest professional standards.

The AMA recommends Pride and Ferrell *Foundations of Marketing* as a suggested resource for AMA PCM® students to utilize as they prepare for taking the AMA PCM® Certification exam, and the text was used as a source to design the course and as a source for suitable examination questions. Now, more than ever, you need to stand out in the marketplace. AMA's Professional Certified Marketer (PCM®) program is the perfect way to showcase your expertise and set yourself apart.

To learn more about the American Marketing Association and the AMA PCM® exam, visit www.marketingpower.com/Careers/Pages/ProfessionalCertifiedMarketer.aspx.



PowerPoint Slides

PowerPoint continues to be a very popular teaching device, and a special effort has been made to upgrade the PowerPoint program to enhance classroom teaching. Premium lecture slides, containing such content as advertisements, Web links, and unique graphs and data, have been created to provide instructors with up-to-date, unique content to increase student application and interest.

Online Role-Play Exercises

The eight role-play case exercises, available online, highlight key chapter concepts. These exercises involve team participation where students engage in a discussion of the marketing dilemma and provide a solution. The class breaks into teams and reaches decisions that relate to the short term, intermediate term, and long term. Each team member is assigned a role and should take on that role in team decision making. The case dilemmas are disguised but are based on real-world marketing situations. All information, including the background section and the roles, are online. See the *Instructor's Manual* for more guidance on these exercises.

Marketing Video Case Series

This series contains videos specifically tied to the video cases found at the end of the book. The videos include information about exciting companies, such as New Belgium Brewing, TOMS, Starbucks, Dale Carnegie, and L.L. Bean.



Authors' Website

The authors also maintain a website at <http://prideferrell.net> to provide video resources that can be used as supplements and class exercises. The videos have been developed as marketing labs with worksheets for students to use on observing the videos. Some of the videos are accessible through links, and there is also information on where some of the videos can be obtained.

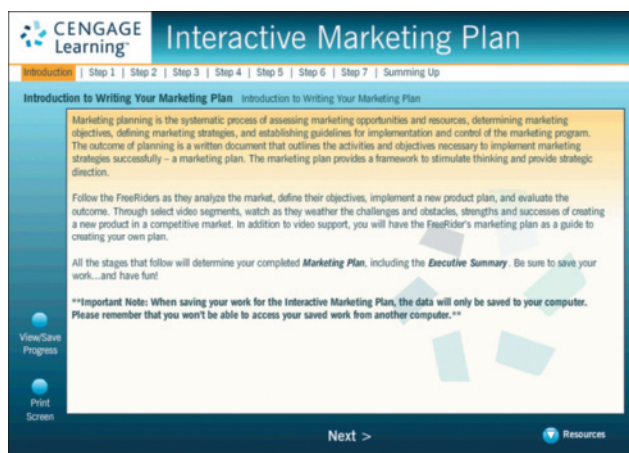
Interactive Marketing Plan

The Marketing Plan Worksheets have been revamped and reproduced within an interactive and multimedia environment. A video program has been developed around the worksheets,

allowing students to follow a company through the trials and tribulations of launching a new product. This video helps place the conceptual marketing plan into an applicable light and is supported by a summary of the specific stages of the marketing plan as well as a sample plan based on the events of the video. These elements support the student while completing his or her own plan, the last step of the Interactive Marketing Plan. The plan is broken up into three functional sections that can either be completed in one simple project or carried out throughout the semester.

SUPPLEMENTS TO MEET STUDENT NEEDS

The complete package available with *Foundations of Marketing* includes support materials that facilitate student learning. To access additional course materials, including Marketing CourseMate, please visit www.cengagebrain.com. At the CengageBrain.com home page,



search for the ISBN of your textbook (from the back cover of your book) using the search box at the top of the page. This will take you to the product page, where the following resources can be found:

- Interactive teaching and learning tools, including
 - Full-color e-book—Allows you to highlight and search for key terms.
 - Quizzes
 - Flashcards
 - Videos
 - An Interactive Marketing Plan
 - And more!

YOUR COMMENTS AND SUGGESTIONS ARE VALUED

As authors, our major focus has been on teaching and preparing learning materials for introductory marketing students. We have traveled extensively to work with students and to understand the needs of professors of introductory marketing courses. We both teach introductory marketing courses on a regular basis and test the materials included in this book, test bank, and other ancillary materials to make sure they are effective in the classroom.

Through the years, professors and students have sent us many helpful suggestions for improving the text and ancillary components. We invite your comments, questions, and criticisms. We want to do our best to provide materials that enhance the teaching and learning of marketing concepts and strategies. Your suggestions will be sincerely appreciated. Please write us, or e-mail us at w-pride@tamu.edu or oc.ferrell@belmont.edu, or call 979-845-5857 (Bill Pride) or 505-277-3468 (O. C. Ferrell).

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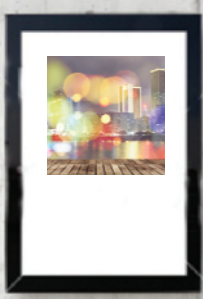
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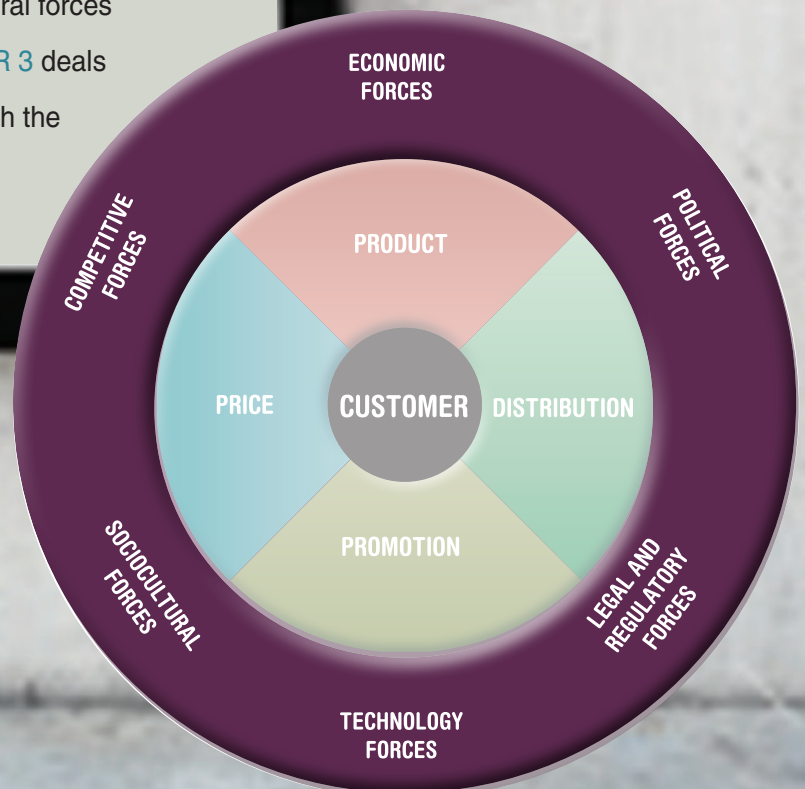
Dr. Ferrell is the co-author of 20 books and more than 100 published articles and papers. His articles have been published in the *Journal of Marketing Research*, the *Journal of Marketing*, the *Journal of Business Ethics*, the *Journal of Business Research*, the *Journal of the Academy of Marketing Science*, and the *Journal of Public Policy & Marketing*, as well as other journals.

Strategic Marketing and Its Environment

PART 1 introduces the field of marketing and offers a broad perspective from which to explore and analyze various components of the marketing discipline. **CHAPTER 1** defines *marketing* and explores some key concepts, including customers and target markets, the marketing mix, relationship marketing, the marketing concept, and value. **CHAPTER 2** provides an overview of strategic marketing issues such as the effect of organizational resources and opportunities on the planning process; the role of the mission statement; corporate, business-unit, and marketing strategies; and the creation of the marketing plan. These issues are profoundly affected by competitive, economic, political, legal and regulatory, technological, and sociocultural forces in the marketing environment. **CHAPTER 3** deals with these environmental forces, and with the role of social responsibility and ethics in marketing decisions.

part 1

- 1: Customer-Driven Strategic Marketing
- 2: Planning, Implementing, and Evaluating Marketing Strategies
- 3: The Marketing Environment, Social Responsibility, and Ethics



chapter 1

OBJECTIVES

- 1-1 Define *marketing*.
- 1-2 Explain the different variables of the marketing mix.
- 1-3 Describe how marketing creates value.
- 1-4 Briefly describe the marketing environment.
- 1-5 Summarize the marketing concept.
- 1-6 Identify the importance of building customer relationships.
- 1-7 Explain why marketing is important to our global economy.

Customer-Driven Strategic Marketing



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MARKETING INSIGHTS

Whole Foods: Where Relationships Matter

At Whole Foods, everything revolves around the customer. The first two of the company's core values involve selling high-quality organic products and satisfying customer needs. This has resulted in a number of initiatives to maintain and enhance its customer relationships.

Employees are organized into self-directed work teams that are empowered to make decisions involving the daily operations of their stores. This organizational structure recognizes that all Whole Foods stores—and the customers that patronize them—are different. Self-directed employee teams have the power to meet the needs of their store's customers in individualized ways.

Whole Foods has also implemented many corporate initiatives to improve the customer experience. Its 365 Everyday Value brand is geared toward customers who want to purchase high-quality food at lower prices. Each store maintains an inviting environment, with

eat-in cafes and sampling. Its adoption of quality product standards helps customers make informed decisions about their purchases.

Whole Foods also recognizes the value of technology in reaching customers. It is active on Twitter and Facebook, responding to customer feedback and posting helpful information about recipes. In a more recent endeavor, Whole Foods partnered with a grocery delivery app to allow customers to construct digital shopping carts. This makes shopping easier for the consumer and increases the size of the average customer's shopping cart by 2.5 times. Finally, Whole Foods is one of the first retailers to use Apple Inc.'s Apple Pay program, showing that it is willing to adapt to meet the needs of tech-savvy customers. The secret of Whole Foods' success is not so much about products, but about its expertise in strong customer relationship management.¹

Like all organizations, Whole Foods attempts to provide products that customers want, communicate useful information about them to excite interest, price them appropriately, and make them available when and where customers want to buy them. Even if an organization does all these things well, however, competition from marketers of similar products, economic conditions, and other factors impact the company's success. Whole Foods has to compete with Walmart's organic products, and with niche grocery stores such as Trader Joe's. Such factors influence the decisions that all organizations must make in strategic marketing.

This chapter introduces the strategic marketing concepts and decisions covered throughout the text. First, we develop a definition of *marketing* and explore each element of the definition in detail. Next, we explore the importance of value-driven marketing. We also introduce the marketing concept and consider several issues associated with its implementation. Additionally, we take a look at the management of customer relationships and relationship marketing. Finally, we examine the importance of marketing in global society.

1-1 DEFINING MARKETING

LO 1-1 Define marketing.

If you ask several people what *marketing* is, you are likely to hear a variety of descriptions. Although many people think marketing is advertising or selling, marketing is much more complex than most people realize. In this book we define **marketing** as the process of creating, pricing, distributing, and promoting goods, services, and ideas to facilitate satisfying exchange relationships with customers and to develop and maintain favorable relationships with stakeholders in a dynamic environment. Our definition is consistent with that of the American Marketing Association (AMA), which defines *marketing* as “the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.”²

Marketing-mix variables are often viewed as controllable because they can be modified. However, there are limits to how much marketing managers can alter them. Economic conditions, competitive structure, and government regulations may prevent a manager from adjusting prices frequently or significantly. Making changes in the size, shape, and design of most tangible goods is expensive; therefore, such product features are not altered very often. In addition, promotional campaigns and methods used to communicate with and persuade consumers ordinarily cannot be revised overnight. Changes in the way products are distributed are even harder to implement. Pricing may be the easiest marketing-mix variable to change.

1-1a Marketing Focuses on Customers

As the purchasers of the products that organizations develop, price, distribute, and promote, **customers** are the focal point of all marketing activities (see Figure 1.1). Companies define their products not as what they make or produce, but as what they do to satisfy customers. The Walt Disney Company is not in the business of establishing theme parks; it is in the business of making people happy. At Disney World, customers are guests and employees are cast members providing a performance and entertainment experience.

marketing The process of creating, pricing, distributing, and promoting goods, services, and ideas to facilitate satisfying exchange relationships with customers and to develop and maintain favorable relationships with stakeholders in a dynamic environment

customers The purchasers of organizations' products; the focal point of all marketing activities

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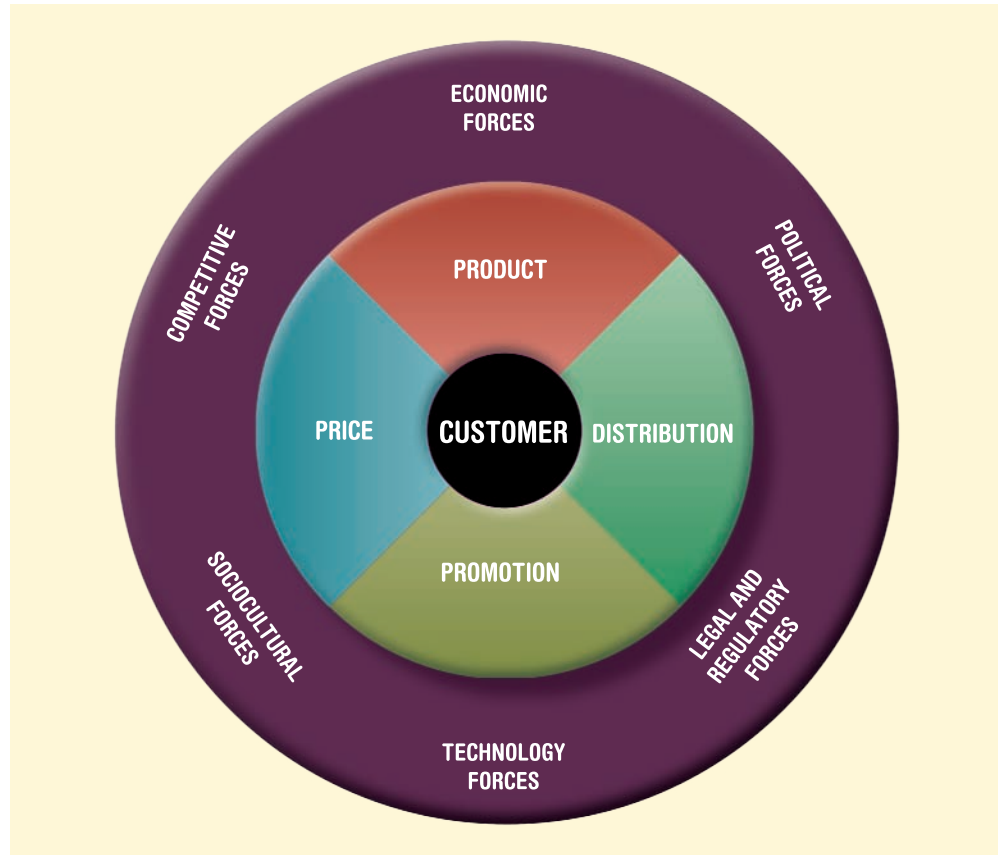
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Source: Pirelli & C. S.p.A.

Appealing to Target Markets

Pirelli offers an opportunity to drive a Formula One racecar, appealing to a target market of customers who want high-quality automobile and tire performance.

Figure 1.1 Components of Strategic Marketing



The essence of marketing is to develop satisfying exchanges from which both customers and marketers benefit. The customer expects to gain a reward or benefit greater than the costs incurred in a marketing transaction. The marketer expects to gain something of value in return, generally the price charged for the product. Through buyer–seller interaction, a customer develops expectations about the seller’s future behavior. To fulfill these expectations, the marketer must deliver on promises made. Over time, this interaction results in relationships between the two parties. Fast-food restaurants such as Wendy’s and Subway depend on repeat purchases from satisfied customers—many often live or work a few miles from these restaurants—whereas customer expectations revolve around tasty food, value, and dependable service.

Organizations generally focus their marketing efforts on a specific group of customers, called a **target market**. The advertisement for Pirelli tires features a Formula One racecar in front of a racing backdrop. Pirelli offers the opportunity to drive a Formula One racecar to get racing enthusiasts excited about its tires. Its association with racing also creates a high-quality image for Pirelli tires. It is therefore targeted toward consumers who want the best tires for their vehicles.

Marketing managers may define a target market as a vast number of people, or as a relatively small group. Often companies target multiple markets with different products, prices, distribution systems, and promotions for each one. Others focus on a smaller, niche market. For instance, Lehman’s Hardware originally targeted the Amish community with its simple, nonelectric products. Today Lehman’s “simple products for a simpler life” are sold to Amish customers, environmental advocates, Peace Corps volunteers, and even producers who have used Lehman’s products in movies such as *Pirates of the Caribbean*.³ Home Depot, on the other hand, targets multiple markets with thousands of product items.

target market A specific group of customers on whom an organization focuses its marketing efforts

1-2 MARKETING DEALS WITH PRODUCTS, PRICE, DISTRIBUTION, AND PROMOTION

LO 1-2 Explain the different variables of the marketing mix.

Marketing involves developing and managing a product that will satisfy customer needs. It also requires promotion to help customers learn about the product and determine if it will satisfy their needs. It focuses on communicating availability in the right place and at the right price. Activities are planned, organized, implemented, and controlled to meet the needs of customers within the target market. Marketers refer to four variables—product, pricing, distribution, and promotion—as the **marketing mix**. Marketing creates value through the marketing mix. A primary goal of marketing managers is to create and maintain the right mix of these variables to satisfy customers' needs for a general product type. They decide what type of each variable to use, and how to synchronize the variables. (Note in Figure 1.1 that the marketing mix is built around the customer.) Apple is well known for its implementation of the marketing mix. It constantly engages in research and development to create new or upgraded products. It promotes these products through traditional advertising, social media, and media events. Apple distributes its products through retail stores, AT&T and other service providers, and through the Internet. It provides its products at a premium price to demonstrate their quality and effectiveness.

Marketing managers strive to develop a marketing mix that matches the needs of customers in the target market. For example, Zumiez targets teenage girls and boys with snowboarding and skateboarding clothes targeted toward this age group.⁴ Marketing managers must constantly monitor the competition and adapt their product, pricing, distribution, and promotion decisions to create long-term success.

Before marketers can develop a marketing mix, they must collect in-depth, up-to-date information about customer needs. Such information might include data about the age, income, ethnicity, gender, and educational level of people in the target market, their preferences for product features, their attitudes toward competitors' products, and the frequency with which they use the product. Zumiez closely monitors trends to adjust its marketing mix to provide constant fashion changes. Armed with market information, marketing managers are better able to develop a marketing mix that satisfies a specific target market.

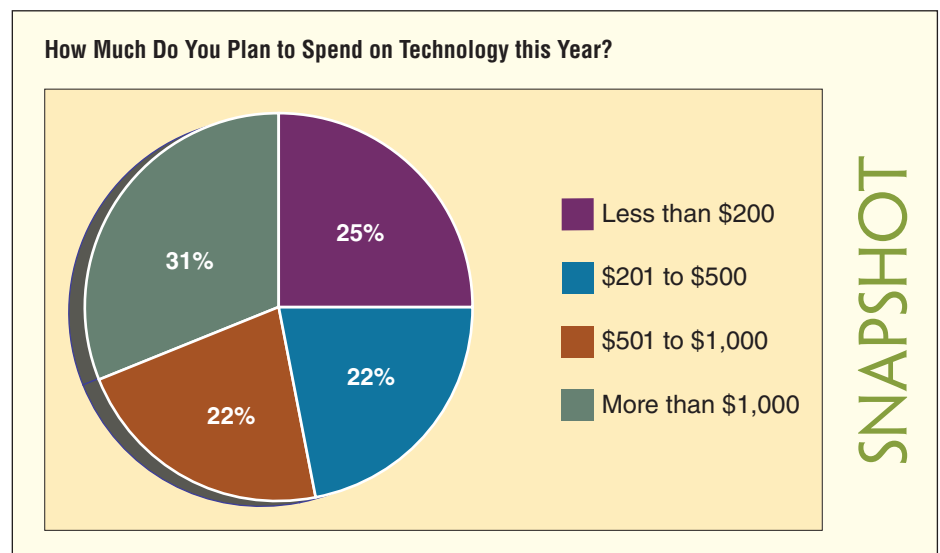
Let's look more closely at the decisions and activities related to each marketing mix variable.

marketing mix Four marketing variables—product, pricing, distribution, and promotion—that a firm controls to meet the needs of customers within its target market

product A good, a service, or an idea

1-2a Product

Successful marketing efforts result in products that become part of everyday life. Consider the satisfaction customers have had over the years from Coca-Cola, Levi's jeans, Visa credit cards, Tylenol pain relievers, and 3M Post-it Notes. The product variable of the marketing mix deals with researching customers' needs and wants and designing a product that satisfies them. A **product** can be a good, a service, or an idea. A good is a physical entity you can touch. Oakley sunglasses, Tempur-Pedic mattresses, and Axe body spray are all examples of products. A service is the application of human and mechanical efforts to people or



Source: "How much do you plan to spend on technology this year?," *Money*, p. 100.



Thomas Barwick/Stone/Getty Images



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Types of Products

Sports events are intangible goods that provide fans with a fun experience. Bicycles represent a tangible good that consumers can use for recreation.

objects to provide intangible benefits to customers. Air travel, education, haircutting, banking, medical care, and day care are examples of services. Ideas include concepts, philosophies, images, and issues. For instance, a marriage counselor, for a fee, gives spouses ideas to help improve their relationship. Other marketers of ideas include political parties, churches, and animal protection groups.

The product variable also involves creating or modifying brand names and packaging, and it may include decisions regarding warranty and repair services. For example, New Belgium Brewing introduced aluminum cans because they can be recycled easier than glass. The company adapted its product's packaging to provide a healthier and "greener" offering.

Product variable decisions and related activities are important because they are directly involved with creating products that address customers' needs and wants. Apple continues to upgrade its iPhone using different model numbers such as 4, 5, and 6 to signal new modifications. To maintain an assortment of products that helps an organization achieve its goals, marketers must develop new products, modify existing ones, and eliminate those that no longer satisfy enough buyers or that yield unacceptable profits.

1-2b Price

The price charged for a product helps establish its value. A company's established pricing objectives and policies determine its products' prices. Price is a critical component of the marketing mix because customers are concerned about benefits, roles, and costs. Price is an important competitive tool that provides an advantage. Higher prices can be used competitively to establish a product's premium image. Seven For All Mankind jeans, for example, has an image of high quality and high price that has given them significant status. Other companies are skilled at providing products at prices lower than their competitors' (consider Walmart's tagline "Save Money, Live Better"). Amazon uses its vast network of partnerships and cost efficiencies to provide products at low prices. Brick-and-mortar retailers have not been able to offer comparable products at such low prices, providing Amazon with a considerable competitive advantage. Pricing is the most flexible marketing-mix variable and can be changed very quickly. Also, price multiplied by quantity sold establishes revenue, which is the responsibility of the marketing function.

1-2c Distribution

To satisfy customers, products must be available at the right time and in appropriate locations. Subway, for example, locates not only in strip malls but also inside Walmart and Home Depot stores, laundromats, churches, and hospitals, as well as inside Goodwill stores, car dealerships,

and appliance stores. There are approximately 40,000 Subways worldwide, surpassing McDonald's as the world's largest chain.⁵

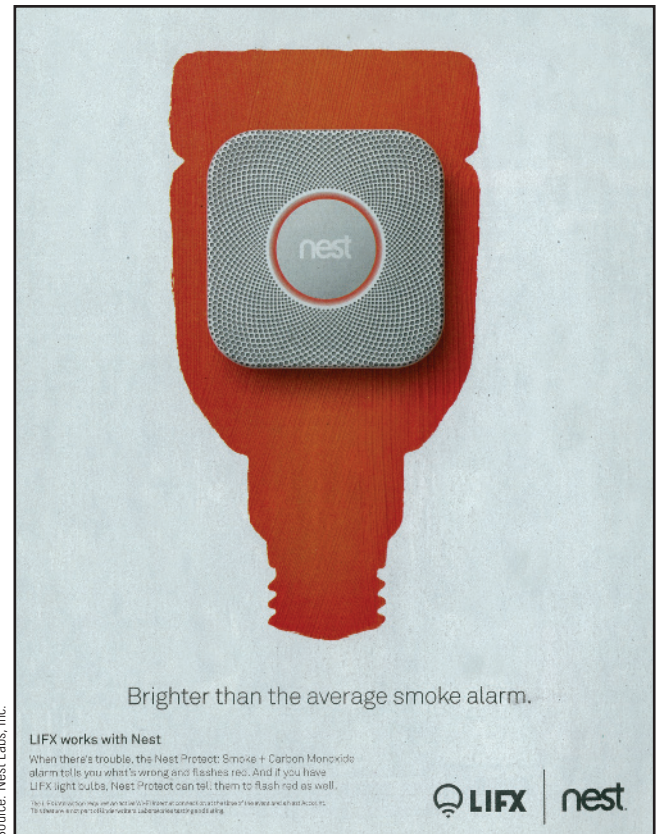
In dealing with the distribution variable, a marketing manager makes products available in the quantities desired to as many target-market customers as possible, keeping total inventory, transportation, and storage costs as low as possible. A marketing manager also may select and motivate intermediaries (wholesalers and retailers), establish and maintain inventory control procedures, and develop and manage transportation and storage systems. All companies must depend on intermediaries to move their final products to the market. The advent of the Internet and electronic commerce also has dramatically influenced the distribution variable. Companies now can make their products available throughout the world without maintaining facilities in each country. For instance, Pandora has benefited from the ability to stream music over the Internet. Customers can listen to music on Pandora, with commercial interruptions, for free, or they can pay to upgrade to listen without commercials. Approximately 31 percent of people aged 12 and over stream music from Pandora each month, compared to 8 percent for iTunes Radio.⁶ We examine distribution issues in Chapters 13 and 14.

1-2d Promotion

The promotion variable relates to activities used to inform and persuade to create a desired response. Promotion can increase public awareness of the organization and of new or existing products. It can help create a direct response such as accessing a website to order a product. Geico uses television and radio advertising to encourage people to spend 15 minutes “to save 15% or more on car insurance.” Geico's tagline is meant to elicit a direct response from consumers, encouraging them to take 15 minutes to make a sales call to a Geico representative.

Promotional activities also educate customers about product features. Nest uses an advertisement to promote the features of its Nest Protect: Smoke + Carbon Monoxide alarm. This alarm warns consumers when there is smoke or carbon monoxide present by flashing red. It also causes LIFX light bulbs to flash red as well, further warning consumers about the danger. The advertisement features a large, red light bulb illustration behind the photo of the product to demonstrate how the alarm works. Promotion can also urge people to take a particular stance on a political or social issue, such as smoking or drug abuse. For example, the Centers for Disease Control (CDC) developed an advertising campaign to deter smoking. The ads were released on television, radio, and billboards. They featured disturbing testimonials from people who have suffered the effects of smoking. The CDC claims that advertisements such as these have had a major impact on convincing smokers to quit.⁷

Promotion can help to sustain interest in established products that have been available for decades, such as Jell-O or Tide detergent. Many companies use the Internet to communicate information about themselves and their products. Campbell's Kitchen provides a diverse array of online recipes, coupons, and discussion boards to support the sales of their soups.⁸



Promotion

Nest uses this advertisement to promote how its partnership with LIFX will cause light bulbs to flash red when the smoke alarm detects smoke or carbon monoxide.

1-3 MARKETING CREATES VALUE

LO 1-3 Describe how marketing creates value.

Value is an important element of managing long-term customer relationships and implementing the marketing concept. We view **value** as a customer's subjective assessment of benefits relative to costs in determining the worth of a product (customer value = customer

value A customer's subjective assessment of benefits relative to costs in determining the worth of a product



Value-Driven Marketing

1800Flowers provides seasonal bouquets to satisfy customer desires for color and decoration.

benefits–customer costs). Consumers develop a concept of value through the integration of their perceptions of product quality and financial sacrifice.⁹ From a company's perspective, there is a trade-off between maintaining the desired value and achieving profit objectives.¹⁰

Customer benefits include anything a buyer receives in an exchange. Hotels and motels, for example, basically provide a room with a bed and bathroom, but each brand provides a different level of service, amenities, and atmosphere to satisfy its guests. Hampton Inn offers the minimum services necessary to maintain a quality, efficient, low-price overnight accommodation. In contrast, the Ritz-Carlton provides every imaginable service a guest might desire. The hotel even allows its staff members to spend up to \$2,000 to settle customer complaints.¹¹ Customers judge which type of accommodation offers the best value according to the benefits they desire and their willingness and ability to pay for the costs associated with the benefits.

Customer costs include anything a buyer must give up to obtain the benefits the product provides. The most obvious cost is the monetary price of the product, but nonmonetary costs can be equally important in a customer's determination of value. Two nonmonetary costs are the time and effort customers expend to find and purchase desired products. To reduce time and effort, a company can increase product availability, thereby making it more convenient for buyers to purchase the firm's products. Another nonmonetary cost is risk, which can be reduced by offering good, basic warranties or extended warranties for an additional charge.¹² Another risk-reduction strategy is the offer of a 100-percent satisfaction guarantee. This strategy is increasingly popular in today's catalog/telephone/Internet shopping environment. L.L.Bean,

for example, uses such a guarantee to reduce the risk involved in ordering merchandise from its catalogs.

The processes people use to determine the value of a product may differ widely. All of us tend to get a feel for the worth of products based on our own expectations and previous experience. We can, for example, compare the value of tires, batteries, and computers directly with the value of competing products. We evaluate movies, sporting events, and performances by entertainers on the more subjective basis of personal preferences and emotions. For most purchases, we do not consciously calculate the associated benefits and costs. It becomes an instinctive feeling that General Mills' Cheerios is a good value, or that McDonald's is a good place to take children for a quick lunch. The purchase of an automobile or a mountain bike may have emotional components, but more conscious decision making also may figure in the process of determining value. Consider the advertisement for 1800Flowers showcasing a vase of tulips to reflect the autumn season. The vase is located next to a bowl of pears and figs, imbuing the scene with a feeling of harvest and bounty. As a way of increasing customer perception of value, the company is offering a limited-time discount for those who use a code to place an order. Perceptions of value regarding more aesthetic products such as flowers are likely to vary greatly because different consumers have different tastes in what they view as aesthetically pleasing.

In developing marketing activities, it is important to recognize that customers receive benefits based on their experiences. For example, many computer buyers consider services such as fast delivery, ease of installation, technical advice, and training assistance to be important elements of the product. Each marketing activity has its own benefits and costs and must be adapted for its contribution to value.¹³ For example, Amazon found that two-day delivery adds value, leading to the development of its Prime Shipping

program. Customers also derive benefits from the act of shopping and selecting products. These benefits can be affected by the atmosphere or environment of a store, such as Red Lobster's nautical/seafood theme. Even the ease of navigating a website can have a tremendous impact on perceived value. When the download and streaming music service GhostTunes was developed, co-owner country singer Garth Brooks had to ensure that the site was user-friendly. The site had to make it easy for users to navigate and choose music to stream or download. Unlike iTunes, Brooks wants GhostTunes to allow copyright holders more freedom as to how their music should be sold on the site.¹⁴ Different customers may view different songs or albums on the site as an exceptional value for their own personal satisfaction.

The marketing mix can enhance perceptions of value. A product that demonstrates value usually has a feature or an enhancement that provides benefits. Promotional activities can also create image and prestige characteristics that customers consider in their assessment of a product's value. In some cases value may be perceived simply as the lowest price. Many customers may not care about the quality of the paper towels they buy; they simply want the cheapest ones for use in cleaning up spills because they plan to throw them in the trash anyway. On the other hand, people looking for the fastest, most convenient way to achieve a goal become insensitive to pricing. For example, many busy customers buy prepared meals in supermarkets to take home and serve quickly, even though these products cost considerably more than meals prepared from scratch. In such cases the products with the greatest convenience may be perceived as having the greatest value. The availability or distribution of products also can enhance their value. Taco Bell wants its Mexican fast food available at any time and any place people are thinking about consuming food. It therefore has introduced Taco Bell products into supermarkets, vending machines, college campuses, and other convenient locations. Thus, the development of an effective marketing strategy requires understanding the needs and desires of customers, designing a marketing mix to satisfy them, and providing the value they want.

1-3a Marketing Builds Relationships with Customers and Other Stakeholders

Marketing also creates value through the building of stakeholder relationships. Individuals and organizations engage in marketing to facilitate **exchanges**, the provision or transfer of goods, services, or ideas in return for something of value. Any product (good, service, or even idea) may be involved in a marketing exchange. We assume only that individuals and organizations expect to gain a reward in excess of the costs incurred.

For an exchange to take place, four conditions must exist. First, two or more individuals, groups, or organizations must participate, and each must possess something of value that the other party desires. Second, the exchange should provide a benefit or satisfaction to both parties involved in the transaction. Third, each party must have confidence in the promise of the "something of value" held by the other. If you go to a Justin Timberlake concert, for example, you go with the expectation of a great performance. Finally, to build trust, the parties to the exchange must meet expectations.

Figure 1.2 depicts the exchange process. The arrows indicate that the parties communicate that each has something of value available to exchange. An exchange will not necessarily take place just because these conditions exist; marketing activities can occur even without an actual transaction or sale. You may see an ad for a Sub-Zero refrigerator, for instance, but you might never

exchanges The provision or transfer of goods, services, or ideas in return for something of value



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Satisfying Stakeholder Needs

Lululemon's target market consists of consumers with active lifestyles. It satisfies the needs of its stakeholders through a high-quality product, an empowering employee workplace, and free weekly yoga classes for the community.