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**MARKETING**

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To Nancy, Allen, Mike, Ashley, and Charlie Pride

To Linda Ferrell





# Brief contents



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## Part 1: Marketing Strategy and Customer Relationships 1

1. An Overview of Strategic Marketing 2
2. Planning, Implementing, and Evaluating Marketing Strategies 30

## Part 2: Environmental Forces and Social and Ethical Responsibilities 67

3. The Marketing Environment 68
4. Social Responsibility and Ethics in Marketing 102

## Part 3: Marketing Research and Target Market Analysis 141

5. Marketing Research and Information Systems 142
6. Target Markets: Segmentation and Evaluation 174

## Part 4: Buying Behavior, Global Marketing, and Digital Marketing 211

7. Consumer Buying Behavior 212
8. Business Markets and Buying Behavior 246
9. Reaching Global Markets 272
10. Digital Marketing and Social Networking 314

## Part 5: Product Decisions 357

11. Product Concepts 358
12. Developing and Managing Products 388
13. Services Marketing 416
14. Branding and Packaging 444

## Part 6: Distribution Decisions 479

15. Marketing Channels and Supply-Chain Management 480
16. Retailing, Direct Marketing, and Wholesaling 520

## Part 7: Promotion Decisions 563

17. Integrated Marketing Communications 564
18. Advertising and Public Relations 596
19. Personal Selling and Sales Promotion 628

## Part 8: Pricing Decisions 671

20. Pricing Concepts 672
21. Setting Prices 700

Appendix A: Financial Analysis in Marketing A-1

Appendix B: Sample Marketing Plan B-1

Online Appendix: Careers in Marketing OA-1



# contents

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## Preface xvii

## Part 1: Marketing Strategy and Customer Relationships 1

### Chapter 1: An Overview of Strategic Marketing 2

**Marketing Insights:** Walmart Returns to Its Roots 3

#### Defining Marketing 4

Marketing Focuses on Customers 4

**Emerging Trends:** Netflix Alienates Its Target Market 6

Marketing Deals with Products, Distribution, Promotion, and Price 6

**Snapshot:** Would You Pay a Price Premium for an Electric Vehicle? 8

Marketing Creates Value 9

**Marketing Debate:** The Relationship between Marketing and Value 10

Marketing Builds Relationships with Customers and Other Stakeholders 11

Marketing Occurs in a Dynamic Environment 12

#### Understanding the Marketing Concept 13

Evolution of the Marketing Concept 14

Implementing the Marketing Concept 15

#### Customer Relationship Management 16

Relationship Marketing 16

Customer Lifetime Value 17

#### The Importance of Marketing in Our Global Economy 17

Marketing Costs Consume a Sizable Portion of Buyers' Dollars 18

Marketing Is Used in Nonprofit Organizations 18

Marketing Is Important to Businesses and the Economy 19

Marketing Fuels Our Global Economy 19

**Entrepreneurship in Marketing:** Electronic Payments:

From Beer Money to Multi-Million Dollar Company 19

Marketing Knowledge Enhances Consumer Awareness 20

Marketing Connects People through Technology 20

Socially Responsible Marketing: Promoting the Welfare of Customers and Stakeholders 21

**Going Green:** Legal Sea Foods Uses Edgy Ads to Hook Consumers 22

Marketing Offers Many Exciting Career Prospects 22

Summary 23

*Important Terms 24*

*Discussion and Review Questions 24*

*Application Questions 25*

*Internet Exercise 25*

*Developing Your Marketing Plan 25*

**Video Case 1.1** *Cruising to Success: The Tale of New Belgium Brewing 26*

**Case 1.2** *Campbell's Wants to Show You the Value of Soup 27*  
*Notes 28*

### Chapter 2: Planning, Implementing, and Evaluating Marketing Strategies 30

**Marketing Insights:** The Humble Grilled Cheese Sandwich Goes High Tech 31

#### The Strategic Planning Process 32

Establishing Organizational Mission Statements and Goals 33

**Marketing Debate:** Minding the Mission 33

Developing Corporate and Business-Unit Strategies 34

**Going Green:** GE's Ecomagination Saves and Earns Billions 36

Assessing Organizational Resources and Opportunities 37

**Emerging Trends:** Watch That Weather Forecast! 39

**Snapshot:** Most Promising Growth Opportunities in the Technology Industry 40

Developing Marketing Objectives and Marketing Strategies 42

#### Managing Marketing Implementation 44

**Entrepreneurship in Marketing:** At the Rogers Family Company, Coffee Is Not the Only Concern 45

Organizing the Marketing Unit 45

Motivating Marketing Personnel 46

Communicating within the Marketing Unit 46

Coordinating Marketing Activities 47

Establishing a Timetable for Implementation 47

#### Evaluating Marketing Strategies 48

Establishing Performance Standards 48

Analyzing Actual Performance 48

Comparing Actual Performance with Performance Standards and Making Changes, if Needed 50

## Creating the Marketing Plan 51

Summary 53

Important Terms 54

Discussion and Review Questions 54

Application Questions 55

Internet Exercise 55

Developing Your Marketing Plan 56

**Video Case 2.1** *White Rock's Sparkling Past Points the Way to Its Marketing Future* 56

**Case 2.2** *Ford's Hard-Driving Strategy for Competitive Advantage* 57

**Strategic Case 1** *Consumers Take a Shine to Apple Inc.* 59

**Role-Play Team Case Exercise 1** *Birmingham Hill Cheese Company* 61

Notes 65

## Part 2: Environmental Forces and Social and Ethical Responsibilities 67

### Chapter 3: The Marketing Environment 68

**Marketing Insights:** Lululemon Takes Advantage of the Yoga Craze 69

#### Examining and Responding to the Marketing Environment 70

Environmental Scanning and Analysis 70

Responding to Environmental Forces 71

#### Competitive Forces 72

Types of Competitors 72

**Entrepreneurship in Marketing:** Crepes in the Fast Lane 73

Types of Competitive Structures 74

Monitoring Competition 75

#### Economic Forces 75

Economic Conditions 75

Buying Power 76

Willingness to Spend 77

#### Political Forces 78

**Marketing Debate:** The Product Safety of Genetically Modified Seeds 79

#### Legal and Regulatory Forces 80

Procompetitive Legislation 80

Consumer Protection Legislation 82

Encouraging Compliance with Laws and Regulations 83

Regulatory Agencies 83

Self-Regulatory Forces 85

#### Technological Forces 86

Impact of Technology 87

**Going Green:** Samsung Uses Green Strategy for New Market Opportunities 88

Adoption and Use of Technology 89

**Snapshot:** I Can't Live Without... 89

#### Sociocultural Forces 90

Demographic and Diversity Characteristics 90

**Emerging Trends:** Stage Stores Target Small Towns 91

Cultural Values 92

Consumerism 93

Summary 94

Important Terms 95

Discussion and Review Questions 95

Application Questions 96

Internet Exercise 96

Developing Your Marketing Plan 96

**Video Case 3.1** *Preserve Products Challenge Traditional Brands with Green Alternatives* 97

**Case 3.2** *Whole Foods Capitalizes on Consumer Desires for Organic Food* 98

Notes 99

### Chapter 4: Social Responsibility and Ethics in Marketing 102

**Marketing Insights:** Marketers Win by Being Ethical 103

#### The Nature of Social Responsibility 104

The Dimensions of Social Responsibility 105

Social Responsibility Issues 108

**Going Green:** Italian Company Turns Sustainability into a Competitive Advantage 109

**Emerging Trends:** The Growing Trend of Eco-Friendly Funeral Services 112

#### Marketing Ethics 112

Ethical Issues in Marketing 113

Ethical Dimensions of Managing Supply Chain Relationships 115

The Nature of Marketing Ethics 116

**Snapshot:** Have You Tried to Get on a Wi-Fi Network That Isn't Yours to Save Money? 117

**Entrepreneurship in Marketing:** Second City Brings Ethics Training to Life 120

Improving Marketing Ethics 120

#### Incorporating Social Responsibility and Ethics into Strategic Planning 123

**Marketing Debate:** The Payoffs for Being Ethical 124

#### Social Responsibility and Ethics Improve Marketing Performance 124

Summary 127

Important Terms 128

Discussion and Review Questions 128

Application Questions 128

Internet Exercise 129

Developing Your Marketing Plan 129

**Video Case 4.1** *TOMS Shoes Expands One-to-One Model to Eyewear* 129

**Case 4.2** *Ethics Drives Barrett-Jackson Auto Auction Company to Success* 130

**Strategic Case 2** *At Timberland, Doing Well and Doing Good Are Laced Together* 132

**Role-Play Team Case Exercise 2** *National Farm and Garden Inc.* 134

Notes 137

## Part 3: Marketing Research and Target Market Analysis 141

### Chapter 5: Marketing Research and Information Systems 142

**Marketing Insights:** Mystery Shoppers Provide Insights 143

#### The Importance of Marketing Research 144

**Snapshot:** Likelihood of Purchasing Smaller, Lower-Cost Cars 145

#### Types of Research 146

Exploratory Research 146

Conclusive Research 148

#### The Marketing Research Process 148

Locating and Defining Problems or Research Issues 149

Designing the Research Project 149

Collecting Data 151

**Entrepreneurship in Marketing:** iModerate Takes a New Approach to Market Research 156

**Going Green:** Stakeholder Feedback Helps Companies Be Greener 158

Interpreting Research Findings 160

Reporting Research Findings 161

#### Using Technology to Improve Marketing Information Gathering and Analysis 162

Marketing Information Systems 162

**Emerging Trends:** The Billboard of the Future 163

Databases 163

**Marketing Debate:** The Privacy of Purchase Data 164

Marketing Decision Support Systems 164

#### Issues in Marketing Research 164

The Importance of Ethical Marketing Research 165

International Issues in Marketing Research 166

*Summary 167*

*Important Terms 168*

*Discussion and Review Questions 168*

*Application Questions 168*

*Internet Exercise 169*

*Developing Your Marketing Plan 169*

**Video Case 5.1** *Marketing Research Reveals Marketing Opportunities in the Baby Boomer Generation 170*

**Case 5.2** *At Threadless, Customers Design the Product 171*  
*Notes 172*

### Chapter 6: Target Markets: Segmentation and Evaluation 174

**Marketing Insights:** Block Party at LEGOLAND Florida 175

#### What Are Markets? 176

#### Target Market Selection Process 177

Step 1: Identify the Appropriate Targeting Strategy 177

**Marketing Debate:** Targeting by Religion or Sexual Orientation 180

Step 2: Determine Which Segmentation Variables to Use 181

**Snapshot:** How Much Buying Power Do Kids Get from Their Parents per Week? 184

**Going Green:** IKEA Adds to the Green Lifestyle 189

Step 3: Develop Market Segment Profiles 189

Step 4: Evaluate Relevant Market Segments 190

**Emerging Trends:** Remember That Toy? 191

Step 5: Select Specific Target Markets 192

#### Developing Sales Forecasts 192

**Entrepreneurship in Marketing:** How Skullcandy

Segments Its Markets 193

Executive Judgment 193

Surveys 193

Time Series Analysis 194

Regression Analysis 195

Market Tests 195

Using Multiple Forecasting Methods 196

*Summary 196*

*Important Terms 197*

*Discussion and Review Questions 197*

*Application Questions 198*

*Internet Exercise 199*

*Developing Your Marketing Plan 199*

**Video Case 6.1** *Raleigh Wheels Out Steel Bicycle Marketing 200*

**Case 6.2** *Is There a Trek Bicycle for Everybody? 201*

**Strategic Case 3** *Marriott: Getting Down to Business with Business Travelers 202*

**Role-Play Team Case Exercise 3** *Seascape Communications 204*  
*Notes 209*

## Part 4: Buying Behavior, Global Marketing, and Digital Marketing 211

### Chapter 7: Consumer Buying Behavior 212

**Marketing Insights:** General Mills Gobbles Up Gluten-Free Sales 213

#### Consumer Buying Decision Process 214

Problem Recognition 215

Information Search 215

Evaluation of Alternatives 216

Purchase 216

**Going Green:** How Green Is That Product? Check the App! 216

Postpurchase Evaluation 217

#### Types of Consumer Decision Making and Level of Involvement 217

#### Situational Influences on the Buying Decision Process 219

#### Psychological Influences on the Buying Decision Process 220

Perception 221

**Marketing Debate:** Digital Stalking: Your Choice? 222

Motives 223

Learning 224

Attitudes 225

**Emerging Trends:** Smartphone + QR = Unlimited

Marketing Opportunity 225

Personality and Self-Concept 227

**Entrepreneurship in Marketing:** Gelato Fiasco: Marketing

Frozen Food in a Sub-Freezing Community 228

Lifestyles 228

**Social Influences on the Buying Decision Process 229**

Roles 230

Family Influences 230

Reference Groups 231

**Snapshot:** Does Your Partner Know About All of Your

Purchases? 231

Opinion Leaders 232

Social Classes 232

Culture and Subcultures 235

**Consumer Misbehavior 237**

*Summary 238*

*Important Terms 240*

*Discussion and Review Questions 240*

*Application Questions 240*

*Internet Exercise 241*

*Developing Your Marketing Plan 241*

**Video Case 7.1** Starbucks Refines the Customer

Experience 242

**Case 7.2** Iams and Eukanuba Understand People Who

Love Pets 243

Notes 244

## Chapter 8: Business Markets and Buying Behavior 246

**Marketing Insights:** Staying Ahead of Technology 247

**Business Markets 248**

Producer Markets 248

Reseller Markets 249

Government Markets 250

**Going Green:** IBM: Big Blue Is Really Green 250

Institutional Markets 251

**Dimensions of Marketing to Business Customers 252**

Characteristics of Transactions with Business

Customers 252

Attributes of Business Customers 253

Primary Concerns of Business Customers 253

**Snapshot:** What Are the Benefits of Using Toll-Free Phone

Numbers to Communicate with Customers? 253

**Emerging Trends:** Apps Help Business Marketers Go

Mobile 255

Methods of Business Buying 255

Types of Business Purchases 256

Demand for Business Products 256

**Business Buying Decisions 258**

The Buying Center 258

Stages of the Business Buying Decision Process 259

Influences on the Business Buying Decision

Process 260

**Marketing Debate:** Self-Regulation Helps to Manage Supplier

Diversity 261

**Entrepreneurship in Marketing:** Pixability Helps Small

Businesses Compete through Videos 262

**Industrial Classification Systems 262**

*Summary 264*

*Important Terms 265*

*Discussion and Review Questions 265*

*Application Questions 265*

*Internet Exercise 266*

*Developing Your Marketing Plan 267*

**Video Case 8.1** Dale Carnegie Focuses on Business

Customers 267

**Case 8.2** Bombardier Serves Multiple Business Markets 268

Notes 270

## Chapter 9: Reaching Global Markets 272

**Marketing Insights:** KFC Experiences Explosive Growth in

China 273

**The Nature of Global Marketing Strategy 274**

**Environmental Forces in Global Markets 275**

Sociocultural Forces 275

Economic Forces 277

**Emerging Trends:** Demand for Luxury Goods Grows in the

East 277

**Snapshot:** The Top 10 Richest Nations (GDP per Capita) 278

Political, Legal, and Regulatory Forces 279

Ethical and Social Responsibility Forces 281

Competitive Forces 284

Technological Forces 285

**Going Green:** Electric Cars Penetrate Chinese Vehicle

Industry 286

**Regional Trade Alliances, Markets, and Agreements 286**

The North American Free Trade Agreement

(NAFTA) 286

The European Union (EU) 288

**Marketing Debate:** Productivity vs. Vacation Time 288

The Southern Common Market (MERCOSUR) 289

The Asia-Pacific Economic Cooperation (APEC) 289

Association of Southeast Asian Nations (ASEAN) 291

The World Trade Organization (WTO) 292

**Modes of Entry into International Markets 292**

Importing and Exporting 293

**Entrepreneurship in Marketing:** Quadlogic Profits during

Recession with Help from Developing Countries 294

Trading Companies 294

Licensing and Franchising 295

Contract Manufacturing 296

Joint Ventures 296

Direct Ownership 298

**Global Organizational Structures 299**

Export Departments 299

International Divisions 300

Internationally Integrated Structures 301

## Customization versus Globalization of International Marketing Mixes 301

Summary 304

Important Terms 305

Discussion and Review Questions 305

Application Questions 305

Internet Exercise 306

Developing Your Marketing Plan 307

**Video Case 9.1** *Evo: The Challenge of Going Global* 307

**Case 9.2** *Starbucks Faces Global Opportunities and Barriers* 308

Notes 310

## Chapter 10: Digital Marketing and Social Networking 314

**Marketing Insights:** Facebook Befriends Small Businesses 315

**Growth and Benefits of Digital Marketing** 316

**The Interactivity of Social Media** 319

**Types of Consumer-Generated Marketing and Digital Media** 320

Social Networks 320

Blogs and Wikis 323

**Entrepreneurship in Marketing:** High School Dropout

Founds Fastest-Growing Blogging Service 324

Media-sharing Sites 325

Virtual Sites 326

**Emerging Trends:** Selling Products with Virtual Games 327

Mobile Devices 327

Applications and Widgets 328

**Snapshot:** The Most Common Forms of Cell Phone Usage 329

**Changing Digital Media Behaviors of Consumers** 329

Online Consumer Behavior 330

**E-Marketing Strategy** 333

Product Considerations 333

Distribution Considerations 334

**Going Green:** Are Electronic Textbooks Really Better for the Environment? 334

Promotion Considerations 335

Pricing Considerations 336

**Ethical and Legal Issues** 336

Privacy 337

Online Fraud 338

**Marketing Debate:** Social Networking in the Workplace 338

Intellectual Property 339

Summary 340

Important Terms 341

Discussion and Review Questions 341

Application Questions 342

Internet Exercise 342

Developing Your Marketing Plan 343

**Video Case 10.1** *RogueSheep's Postage App: The Postcard of the Future* 343

**Case 10.2** *Twitter Emerges as a Digital Marketing Tool* 344

**Strategic Case 4** *McDonald's Continues to Be a Global Marketing Success* 345

**Role-Play Team Case Exercise 4** *Parcel International Express* 348

Notes 353

## Part 5: Product Decisions 357

### Chapter 11: Product Concepts 358

**Marketing Insights:** The Future Is Denim for Gap Inc. 359

**What Is a Product?** 360

**Snapshot:** How Do You Decide Whether a Product Is "Green"? 362

**Classifying Products** 362

Consumer Products 363

**Marketing Debate:** The Authenticity of Stress-Relief Drinks 363

Business Products 366

**Going Green:** What Makes a Green Product? 367

**Product Line and Product Mix** 368

**Product Life Cycles and Marketing Strategies** 370

Introduction 370

Growth 371

**Entrepreneurship in Marketing:** Kickstarter Allows

Entrepreneurs to Unleash Products 372

Maturity 373

Decline 374

**The Product Adoption Process** 375

**Why Some Products Fail and Others Succeed** 377

**Emerging Trends:** Companies Reward Product Failures 377

Summary 380

Important Terms 380

Discussion and Review Questions 381

Application Questions 381

Internet Exercise 382

Developing Your Marketing Plan 382

**Video Case 11.1** *Artistry Meets Affordability with Blu Dot Furniture* 382

**Case 11.2** *Wyndham Hotels Portfolio of Brands Satisfies Diverse Customer Needs* 384

Notes 385

### Chapter 12: Developing and Managing Products 388

**Marketing Insights:** GM Modifies Products to Rebound 389

**Managing Existing Products** 390

Line Extensions 390

Product Modifications 391

**Snapshot:** Which Do You Prefer from Tech Products? 392

**Developing New Products** 393

**Entrepreneurship in Marketing:** Entrepreneur Creates Invention to Meet French Demand for Baguettes 393

Idea Generation 394

- Screening 395
- Concept Testing 395
- Business Analysis 396
- Product Development 397
- Test Marketing 397
- Going Green:** Will LEDs Become the New Light Bulb? 398
- Commercialization 399
- Emerging Trends:** Ford and Zipcar Partnership Mutually Beneficial 402
- Product Differentiation through Quality, Design, and Support Services 402**
  - Product Quality 402
  - Product Design and Features 403
  - Product Support Services 404
- Marketing Debate:** The Authenticity of the Artisan Food Label 404
- Product Positioning and Repositioning 405**
  - Perceptual Mapping 405
  - Bases for Positioning 406
  - Repositioning 406
- Product Deletion 407**
- Organizing to Develop and Manage Products 408**
  - Summary 409
  - Important Terms 410
  - Discussion and Review Questions 410
  - Application Questions 410
  - Internet Exercise 411
  - Developing Your Marketing Plan 411
  - Video Case 12.1** Do AXE Products Make Men More Desirable? 412
  - Case 12.2** Caterpillar Inc. Crawls Over the Competition with Product Development 413
  - Notes 414
- Chapter 13: Services Marketing 416**
- Marketing Insights:** Four-Season Personal Service at the Four Seasons 417
- The Growth and Importance of Services 418**
- Characteristics of Services 420**
  - Intangibility 420
  - Inseparability of Production and Consumption 421
  - Perishability 421
  - Heterogeneity 422
  - Client-Based Relationships 423
  - Customer Contact 423
- Entrepreneurship in Marketing:** Via: Best Small Ad Agency Attracts National Clients 423
- Developing and Managing Marketing Mixes for Services 424**
  - Development of Services 425
  - Distribution of Services 426
  - Promotion of Services 427
- Emerging Trends:** Customer Service Goes Social 428
- Pricing of Services 428
- Going Green:** “Food with Integrity” Gives Chipotle an Edge 429
- Service Quality 430**
  - Customer Evaluation of Service Quality 430
  - Delivering Exceptional Service Quality 432
- Snapshot:** What Do Angry Customers Do? 433
- Marketing Debate:** Is the Customer Always Right? 434
- Nonprofit Marketing 434**
  - How Is Nonprofit Marketing Different? 435
  - Nonprofit Marketing Objectives 435
  - Developing Nonprofit Marketing Strategies 435
- Summary 437
- Important Terms 439
- Discussion and Review Questions 439
- Application Questions 439
- Internet Exercise 439
- Developing Your Marketing Plan 440
- Video Case 13.1** UNICEF and the Good Shirts Project 440
- Case 13.2** Marketing In-Store Medical Services: Flu Shots in Aisle 6 441
- Notes 442
- Chapter 14: Branding and Packaging 444**
- Marketing Insights:** Who Is Joe Fresh? Will This Fresh Idea Work in the United States? 445
- Branding 446**
  - Value of Branding 446
- Emerging Trends:** Branding in China: “Defect” versus “Responds without Fail” 448
- Brand Loyalty 448
- Brand Equity 449
- Types of Brands 451
- Snapshot:** What Are the Most Popular Private Branded Grocery Products? 451
- Selecting a Brand Name 453
- Entrepreneurship in Marketing:** EagleView’s Business Brand Soars 454
- Protecting a Brand 454
- Branding Strategies 456
- Co-Branding 457
- Brand Licensing 457
- Marketing Debate:** Brands on Campus 458
- Packaging 458**
  - Packaging Functions 458
  - Major Packaging Considerations 459
  - Packaging and Marketing Strategies 460
- Going Green:** In Packaging, Less Is More 462
- Criticisms of Packaging 462
- Labeling 463**
  - Summary 465
  - Important Terms 466
  - Discussion and Review Questions 467
  - Application Questions 467
  - Internet Exercise 467
  - Developing Your Marketing Plan 468
  - Video Case 14.1** New Belgium Brews Up Strong Brand Equity 468
  - Case 14.2** Gatorade Goes for “G” Branding 469
  - Strategic Case 5** 100 Years of Product Innovation at Chevrolet 470
  - Role-Play Team Case Exercise 5** Nature Pure 472
  - Notes 477

## Part 6: Distribution Decisions 479

### Chapter 15: Marketing Channels and Supply-Chain Management 480

**Marketing Insights:** Angry Birds and Greedy Pigs Seek Expanded Distribution 481

#### Foundations of the Supply Chain 482

#### The Role of Marketing Channels in Supply Chains 483

The Significance of Marketing Channels 486

**Entrepreneurship in Marketing:** Etsy Creates a Crafty Channel 486

Types of Marketing Channels 488

Selecting Marketing Channels 492

**Emerging Trends:** Branded Stores as Entertainment Bring in Tourists 493

#### Intensity of Market Coverage 494

Intensive Distribution 494

Selective Distribution 495

Exclusive Distribution 495

#### Strategic Issues in Marketing Channels 496

Competitive Priorities in Marketing Channels 496

Channel Leadership, Cooperation, and Conflict 497

Channel Integration 500

#### Physical Distribution in Supply-Chain Management 501

**Going Green:** Recyclables Travel Via Express Delivery 502

Order Processing 503

Inventory Management 504

Materials Handling 505

**Marketing Debate:** Which Are More Earth-Friendly: Online or Traditional Channels? 505

Warehousing 506

Transportation 507

**Snapshot:** Where Are the Highest Truck Cargo Thefts? 509

#### Legal Issues in Channel Management 510

Dual Distribution 510

Restricted Sales Territories 511

Tying Agreements 511

Exclusive Dealing 511

Refusal to Deal 511

*Summary 512*

*Important Terms 513*

*Discussion and Review Questions 514*

*Application Questions 514*

*Internet Exercise 515*

*Developing Your Marketing Plan 515*

**Video Case 15.1** Taza Cultivates Channel Relationships with Chocolate 516

**Case 15.2** Dell Direct and Not-So-Direct 517

*Notes 518*

### Chapter 16: Retailing, Direct Marketing, and Wholesaling 520

**Marketing Insights:** Bass Pro Shops Offer Outdoor Experiences Indoors 521

#### Retailing 522

**Marketing Debate:** Should Black Friday Start on Thanksgiving? 523

#### Major Types of Retail Stores 524

General-Merchandise Retailers 524

**Going Green:** Costco Seeks Sustainability through Improved Processes and Products 528

Specialty Retailers 528

#### Strategic Issues in Retailing 530

Location of Retail Stores 530

Retail Positioning 532

**Entrepreneurship in Marketing:** Personalizing Online Selling for Cyclists 533

Store Image 533

Category Management 534

#### Direct Marketing and Direct Selling 535

Direct Marketing 535

**Snapshot:** How Much Is or Will Be Bought Online? 536

Direct Selling 537

Automatic Vending 538

**Emerging Trends:** Vending Machines Go High-Tech 539

#### Franchising 539

#### Wholesaling 541

Services Provided by Wholesalers 541

Types of Wholesalers 542

*Summary 547*

*Important Terms 548*

*Discussion and Review Questions 549*

*Application Questions 549*

*Internet Exercise 550*

*Developing Your Marketing Plan 550*

**Video Case 16.1** L.L.Bean: Open 24/7, Click or Brick 550

**Case 16.2** Tesco Freshens Up Fresh & Easy's Retail Strategy 551

**Strategic Case 6** GameStop Plays to Win 553

**Role-Play Team Case Exercise 6** RedRiverShops.com 555

*Notes 561*



## Part 7: Promotion Decisions 563

### Chapter 17: Integrated Marketing Communications 564

**Marketing Insights:** Taco Bell Provides Transparent Communication in a Crisis 565

**The Nature of Integrated Marketing Communications 566**

**Promotion and the Communication Process 567**

**The Role and Objectives of Promotion 570**

- Create Awareness 571
- Stimulate Demand 572
- Encourage Product Trial 572
- Identify Prospects 572
- Retain Loyal Customers 573
- Facilitate Reseller Support 573
- Combat Competitive Promotional Efforts 573
- Reduce Sales Fluctuations 573

**The Promotion Mix 574**

Advertising 574

**Emerging Trends:** The Pros and Cons to Celebrity Endorsers 575

- Personal Selling 576
- Public Relations 576
- Sales Promotion 577

**Selecting Promotion Mix Elements 578**

- Promotional Resources, Objectives, and Policies 578
- Characteristics of the Target Market 579
- Characteristics of the Product 579

**Going Green:** Government Cracks Down on Greenwashing 579

- Costs and Availability of Promotional Methods 580
- Push and Pull Channel Policies 581

**The Growing Importance of Word-of-Mouth Communications 582**

**Snapshot:** How Do Consumers Discuss Products? 582

**Product Placement 584**

**Entrepreneurship in Marketing:** The Kluger Agency Combines Music and Product Placement 584

**Criticisms and Defenses of Promotion 585**

- Is Promotion Deceptive? 585
- Does Promotion Increase Prices? 586
- Does Promotion Create Needs? 586
- Does Promotion Encourage Materialism? 586
- Does Promotion Help Customers without Costing Too Much? 586

**Marketing Debate:** Green...but Still Dangerous 587

- Should Potentially Harmful Products Be Promoted? 587

*Summary 588*

*Important Terms 589*

*Discussion and Review Questions 589*

*Application Questions 589*

*Internet Exercise 590*

*Developing Your Marketing Plan 590*

**Video Case 17.1** Vans Masters Communication with the Skater-Shoe Market 591

**Case 17.2** Southwest Airlines Promotes Its Culture 592  
*Notes 593*

### Chapter 18: Advertising and Public Relations 596

**Marketing Insights:** L'Oréal Slogan Celebrates 40 Years of Empowering Women 597

**The Nature and Types of Advertising 598**

**Marketing Debate:** Truthful but Misleading Advertisements 599

**Developing an Advertising Campaign 600**

- Identifying and Analyzing the Target Audience 600
- Defining the Advertising Objectives 601
- Creating the Advertising Platform 602
- Determining the Advertising Appropriation 602
- Developing the Media Plan 604

**Emerging Trends:** Clorox Uses Mobile Marketing to Make Cleaning Fun 606

Creating the Advertising Message 608

Executing the Campaign 611

Evaluating Advertising Effectiveness 611

**Who Develops the Advertising Campaign? 613**

**Snapshot:** Global Consumers' Trust of Advertising Methods 613

**Public Relations 614**

Public Relations Tools 615

**Going Green:** Launching a Green Public Relations Campaign 616

**Entrepreneurship in Marketing:** Pass Christian Soap Co. Experiences the Benefits of Publicity 617

Evaluating Public Relations Effectiveness 618

Dealing with Unfavorable Public Relations 618

*Summary 620*

*Important Terms 621*

*Discussion and Review Questions 621*

*Application Questions 622*

*Internet Exercise 622*

*Developing Your Marketing Plan 623*

**Video Case 18.1** Pepsi Takes Different Spins on Advertising 623

**Case 18.2** Toyota Uses Advertising to Restore Trust 624  
*Notes 625*

## Chapter 19: Personal Selling and Sales Promotion 628

**Marketing Insights:** Salesforce.com Manages Its Relationships and Reputation 629

### The Nature of Personal Selling 630

**Entrepreneurship in Marketing:** Scentsy Experiences the Sweet Smell of Success 631

### Elements of the Personal Selling Process 633

- Prospecting 633
- Preapproach 634
- Approach 634
- Making the Presentation 634

**Marketing Debate:** Virtual versus Face-to-Face Sales Presentations 635

- Overcoming Objections 635
- Closing the Sale 635
- Following Up 636

### Types of Salespeople 636

- Order Getters 636
- Order Takers 637
- Support Personnel 637

### Selected Types of Selling 638

- Team Selling 638
- Relationship Selling 638

### Managing the Sales Force 640

- Establishing Sales Force Objectives 640
- Determining Sales Force Size 641

- Recruiting and Selecting Salespeople 641
- Training Sales Personnel 642

**Emerging Trends:** New Bribery Law Affects Personal Selling Industry 643

- Compensating Salespeople 643
- Motivating Salespeople 645
- Managing Sales Territories 647
- Controlling and Evaluating Sales Force Performance 647

### The Nature of Sales Promotion 648

- Consumer Sales Promotion Methods 649

**Going Green:** E-Coupons Benefit a Variety of Stakeholders—Including the Environment 651

**Snapshot:** Where Shoppers Get Coupons and Discounts 651  
Trade Sales Promotion Methods 655

*Summary 657*

*Important Terms 658*

*Discussion and Review Questions 658*

*Application Questions 658*

*Internet Exercise 659*

*Developing Your Marketing Plan 659*

**Video Case 19.1** *Murray's Cheese Achieves Success through Personal Selling 660*

**Case 19.2** *Direct Selling in China Booms in the 21st Century 661*

**Strategic Case 7** *Indy Racing League (IRL) Focuses on Integrated Marketing Communications 662*

**Role-Play Team Case Exercise 7** *Shockvolt Energy Drink 664*  
*Notes 668*

## Part 8: Pricing Decisions 671

### Chapter 20: Pricing Concepts 672

**Marketing Insights:** Publishers and Booksellers Set E-Book Prices 673

**Snapshot:** What Influences Your Vacation Plans the Most? 674

### The Nature of Price 674

#### Price and Nonprice Competition 675

- Price Competition 675
- Nonprice Competition 676

**Entrepreneurship in Marketing:** Buy One, Donate One Eyeglasses 676

#### Analysis of Demand 677

- The Demand Curve 677
- Demand Fluctuations 678
- Assessing Price Elasticity of Demand 679

#### Demand, Cost, and Profit Relationships 680

- Marginal Analysis 680
- Break-Even Analysis 683

#### Factors That Affect Pricing Decisions 684

- Organizational and Marketing Objectives 684
- Types of Pricing Objectives 685
- Costs 685

**Going Green:** Driven to Save the Planet 686

- Other Marketing Mix Variables 686
- Channel Member Expectations 687
- Customers' Interpretation and Response 687

**Emerging Trends:** The Great Pretenders: Renting Upscale Art, Fashion, and Jewelry 689

- Competition 689
- Legal and Regulatory Issues 690

**Marketing Debate:** Should Cash and Credit Prices Differ? 691

#### Pricing for Business Markets 691

- Price Discounting 691
- Geographic Pricing 693
- Transfer Pricing 693

*Summary 694*

*Important Terms 695*

*Discussion and Review Questions 695*

*Application Questions 696*

*Internet Exercise 696*

*Developing Your Marketing Plan 696*

**Video Case 20.1** *Pricing Renewable Energy Projects: Think Long-Term 697*

**Case 20.2** *Take You Out to the Ball Game? Let Me Check the Price First 698*

*Notes 699*

## Chapter 21: Setting Prices 700

**Marketing Insights:** Good, Better, Best Western 701

### Development of Pricing Objectives 702

- Survival 703
- Profit 703
- Return on Investment 703
- Market Share 703
- Cash Flow 704
- Status Quo 704

**Emerging Trends:** Panera Cares: Pay What You Want 705  
Product Quality 705

### Assessment of the Target Market's Evaluation of Price 705

#### Evaluation of Competitors' Prices 706

**Snapshot:** Would You Pay More for an Electric Car Than for a Gasoline-Powered One? 707

#### Selection of a Basis for Pricing 707

- Cost-Based Pricing 707

**Going Green:** Can a Nickel Change Behavior? 708

- Demand-Based Pricing 709
- Competition-Based Pricing 710

#### Selection of a Pricing Strategy 710

- Differential Pricing 711

New-Product Pricing 712

Product-Line Pricing 713

Psychological Pricing 715

**Marketing Debate:** Travel Prices and Fine Print 716

Professional Pricing 719

Promotional Pricing 719

**Entrepreneurship in Marketing:** Zafirro's \$100,000 Razor 721

### Determination of a Specific Price 721

*Summary* 722

*Important Terms* 723

*Discussion and Review Questions* 723

*Application Questions* 724

*Internet Exercise* 724

*Developing Your Marketing Plan* 724

**Video Case 21.1** Pricing at the Farmers' Market 725

**Case 21.2** JCP Switches to EDLP 726

**Strategic Case 8** Newspapers Test Pricing for Digital Editions 727

**Role-Play Team Case Exercise 8** Clean Technologies Inc. 729

*Notes* 734

## Appendix A: Financial Analysis in Marketing A-1

### The Income Statement A-1

- Performance Ratios A-5
- Operating Ratios A-5
- Inventory Turnover Rate A-5
- Return on Investment A-7

### Price Calculations A-7

- Markups A-7
- Markdowns A-9

Discussion and Review Questions A-10

## Appendix B: Sample Marketing Plan B-1

### I. Executive Summary B-1

### II. Environmental Analysis B-1

- A. The Marketing Environment B-1
- B. Target Market(s) B-2
- C. Current Marketing Objectives and Performance B-3

### III. SWOT Analysis B-3

- A. Strengths B-3
- B. Weaknesses B-3

C. Opportunities B-4

D. Threats B-4

E. Matching Strengths to Opportunities/Converting Weaknesses and Threats B-4

### IV. Marketing Objectives B-5

### V. Marketing Strategies B-5

- A. Target Market(s) B-5
- B. Marketing Mix B-6

### VI. Marketing Implementation B-6

- A. Marketing Organization B-6
- B. Activities, Responsibilities, and Timetables for Completion B-7

### VII. Performance Evaluation B-7

- A. Performance Standards and Financial Controls B-7
- B. Measuring Actual Performance B-8

### Glossary G-1

### Name Index I-1

### Organization Index I-3

### Subject Index I-13

**Online Appendix: Careers in Marketing OA-1****Career Transitions OA-1****Career Choices Are Major Life Choices OA-2**

Personal Factors Influencing Career Choices OA-2

**Job Search Activities OA-2****Planning and Preparation OA-4****The Résumé OA-4**

The Job Interview OA-6

After the Interview OA-8

After the Hire OA-8

**Types of Marketing Careers OA-8**

E-Marketing and Customer Relationship

Management OA-9

Social Media Manager OA-9

Marketing Research OA-10

Sales OA-11

Industrial Buying OA-11

Public Relations OA-12

Distribution Management OA-13

Product Management OA-14

Advertising OA-14

Retail Management OA-15

Direct Marketing OA-15

*Notes OA-16*

# preface



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## MARKETING IN A CHANGING ENVIRONMENT

The importance of marketing has continued to increase as dynamic changes in the environment evolve. As students prepare for careers in a globally competitive digital world, they will need to gain marketing knowledge that will prepare them to be successful. This new edition of *Pride & Ferrell Marketing* has been revised to engage students and provide the frameworks, concepts, and approaches to decision making that ensure comprehensive understanding of marketing. Our perspective goes beyond learning terminology and concepts to provide decision-making experiences for students through the use of cases, exercises, debate issues, and new themed role-play cases. As students prepare for the new digital world, they also need practice in developing communication skills, especially effective teamwork.

*Pride & Ferrell Marketing* has been developed to make sure that students receive the most comprehensive overview of marketing available. This means that students using this book should develop respect for the importance of marketing and understand that learning marketing requires in-depth knowledge and the mastering of essential concepts. Therefore, key concepts like digital marketing and social networking, services marketing, branding and packaging, and social responsibility and ethics in marketing all receive standalone chapters. We also provide numerous ancillary materials to aid in student comprehension of marketing concepts as well as for 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 an increasingly powerful tool for marketers. Most discussions about marketing today bring up issues like how digital media can lower costs, improve communications, provide better customer support, and achieve improved marketing research. All elements of the marketing mix should be considered when using digital media and social networking. We discuss how digital media and social networking tools can create effective digital marketing strategies that can enhance marketing efforts. In addition, the entire book integrates important digital marketing concepts and examples where appropriate.

We have paid careful attention to enhancing all key concepts in marketing and have built this revision to be current and to reflect important changes in marketing. Our book is a market leader because students find it readable and relevant. Our text reflects the real world of marketing and provides the most comprehensive coverage possible of important marketing topics.

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, including concepts, examples, cases, exercises, and data, possible. Therefore, in this revision there are significant changes that make learning more engaging and interesting to the students. The following highlight 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 chapters will reveal where new content has been added. Many of the new examples and content changes have been updated to 2012.
- End-of-Part exercises.** At the end of each part, there is a new role-play case exercise. These eight new case exercises involve team participation where students engage in a discussion of the 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 in the text. See the *Instructor's Manual* for more guidance on these exercises.

**ROLE-PLAY TEAM CASE EXERCISE 1**

This role-play team case exercise is designed to simulate actual marketing decision making in the real world. The entire team should read the overview and background. Each student will take on a role of a particular employee within the organization. Your instructor will provide additional information and instructions related to a team decision.

---

**BIRMINGHAM HILL CHEESE COMPANY\***

**Background**

In 1999, Ted and Delilah Yancey founded the Birmingham Hill Cheese company in Boulder, Colorado. The Yanceys wanted to capture a unique market niche by selling a product that was artisan, or handmade. Their first product, Raven Eye Goat Cheese, was an immediate hit and won first prize at a national cheese competition. The company was following the marketing concept of satisfying its target market of customers who wanted high-quality artisan cheese.

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**MARKETING INSIGHTS**

**Walmart Returns to Its Roots**

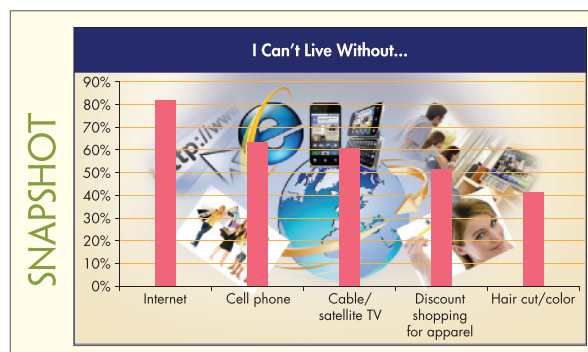
Walmart has long been admired for its skill in implementing a superior marketing strategy. Its everyday low prices (EDLP) and basic products strongly appeal to its target market, mainly households that make below \$70,000 a year. However, trouble has come to Walmart due to changes in its marketing strategy. Walmart tried to broaden its customer base by selling more upscale products and compromising its position as a price leader. According to analysts, Walmart's attempt to be everything to everybody resulted in a loss of its core market.

some of its products, conflicting with Walmart's EDLP pricing strategy. Under normal economic conditions, this might not have been so problematic; however, during the most recent recession many of its customers were unhappy with Walmart's removal of basic items. They often switched to lower-priced rivals Dollar Tree and Family Dollar. Additionally, Walmart's upscale items failed to catch on with higher-income consumers.

After realizing its marketing mistakes, Walmart reintroduced many of its basic products that it had previously removed.

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- Opening vignettes: Marketing Insights.** All of the chapter-opening vignettes are new or updated. They are written to introduce the theme 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 to fit the themes of this edition.
- New Snapshot features.** Many 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.



Source: BIGResearch-American Pulse Survey of 5,015 adult consumers, December 2010, [www.stores.org/STORES%20Magazine%20February%202011/adjusting-new-normal](http://www.stores.org/STORES%20Magazine%20February%202011/adjusting-new-normal).



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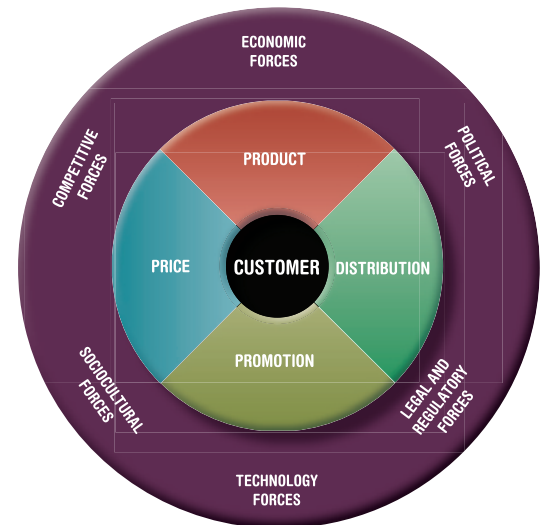
**Distribution**  
The growth in popularity of e-readers has led to a greater direct distribution of magazines, newspapers, and books.

- **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 cases.** Each chapter contains two cases, including a video case, profiling firms to illustrate concrete application of marketing strategies and concepts. Many of our video cases are new to this edition and are supported by current and engaging videos.

## 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. Marketing continues to be one of the most widely adopted introductory textbooks in the world. We appreciate the confidence that adopters have placed in our textbook 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 mystery shopping, the rise in gluten-free foods, the benefits of marketing ethics, and electronic book pricing. Students will also be introduced to such companies as The Melt, Legoland, Four Seasons, Bass Pro Shops, and Salesforce.com.
- **Boxed features**—*Emerging Trends in Marketing* 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.



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### Emerging Trends

#### The Growing Trend of Eco-Friendly Funeral Services

The \$12 billion funeral industry faces a dilemma: it is running out of burial space. In Europe cemeteries are reaching their maximum capacity. Cremations are being criticized due to the large amount of carbon emissions crematoriums release. These difficulties combined with a growing interest in environmentally friendly practices are inspiring more funeral companies to offer green burial services.

This emerging trend is reinventing the concept of funeral services. Green funerals not only help to solve the problem of decreasing land availability and pollution, but they also tend to cost less than traditional funerals. This is because many of the more costly services, such as embalming the body or buying a metal coffin, can be bypassed. Consumers can choose from many different

“green” options, and companies are rushing to meet demand with their own solutions. For instance, Creative Coffins creates themed coffins that are biodegradable and Creative Reefs adds human ashes to an artificial reef ball placed on the ocean floor.

Not everyone is happy about green funerals, however. Some towns have blocked the creation of green cemeteries because residents fear that bodies buried without coffins could potentially contaminate groundwater. Other green funeral processes are thought to degrade human dignity. The topic of green burials has strained community relations in certain areas, a fact that funeral companies must keep in mind when marketing green funeral services.<sup>9</sup>

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- The *Emerging Trends* boxes cover such marketing phenomena as digital and interactive billboards, QR codes in marketing, weather-watching for inventory planning, mobile applications, virtual games, and branded stores. Featured companies include Netflix, Stage Stores, Clorox, Panera, and Zipcar.

**Going Green**

**Italian Company Turns Sustainability into a Competitive Advantage**

Italian company Sabox has come up with an innovative way to deal with overflowing trash in landfills: make furniture out of it. Sabox is a paper company that produces sustainable packaging from recycled paper. Its GreenProject initiative seeks to incorporate sustainability into all areas of the company, both with the products it sells and its operations. For instance, all of the company's products are certified by the Forest Stewardship Council, which signals that the materials are responsibly sourced. Even employees take the company's sustainability message seriously by carpooling to work.

Sabox is able to differentiate itself from competitors through its green message and its commitment to social responsibility. When Sabox founder Aldo Savarese saw the overflowing landfills in Naples, approximately 25 miles from company headquarters, he resolved to do something about it. For many years Naples has experienced problems with trash collection. The company believes it can help the area by turning discarded items into valuable products. Sabox has been able to create desks, tables, and chairs from discarded materials. And these items are not shoddily made either—some of the furniture has been designed by a famous Italian designer. Sabox also donates chairs to the Venice International Film Festival, a marketing tactic that increases goodwill for the company and spreads awareness of its products.<sup>4</sup>

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- The *Marketing Debate* marginal feature discusses controversial issues related to marketing, such as the relationship between marketing and value, the marketing of genetically modified seeds, the ability of consumers to opt out of online tracking, the practices of credit card companies, the marketing of brands on college campuses, and the pricing transparency of travel services.

**Entrepreneurship in Marketing**

**iModerate Takes a New Approach to Market Research**

**Entrepreneurs:** Joel Benenson and Carl Rossow  
**Business:** iModerate  
**Founded:** 2004 | Denver, Colorado  
**Success:** iModerate's clients have included 32 Fortune 100 companies, and 80 percent of initial clients return for additional projects.

Internet surveys are a popular marketing research method due to their ease and flexibility. However, entrepreneurs Joel Benenson and Carl Rossow saw something missing. They noticed that many Internet surveys do not provide enough information for each respondent. To solve this problem, they created the market research company iModerate. The company soon began making a name for itself in online market research, with clients including Kaiser Permanente, Business Roundtable, and Showtime.

Rather than simply surveying consumers, iModerate moderators also conduct one-on-one online discussions with consumers. Since its founding, the company has conducted more than 100,000 of these discussions. As a result, it has devised a unique framework called ThoughtPath™ to discover what consumers want. ThoughtPath™ combines the concepts of perception, identity, and experience to understand how consumers interpret a brand and view themselves in regard to the brand. This framework is used to provide meaningful consumer insights for iModerate clients. iModerate is an example of a company using evolving technologies to create more detailed methodologies for marketing research.<sup>2</sup>

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- The *Going Green* boxes introduce students to such topics as green mobile applications, electric vehicles in China, LED light bulbs, reverse channels for recycling, greenwashing, and congestion pricing. Featured companies include General Electric, Samsung, Ikea, IBM, Chipotle, and Costco.
- In every chapter, there are two mini-features: *Marketing Debate* and *Entrepreneurship in Marketing*.

**Marketing Debate**

**The Payoffs for Being Ethical**


**ISSUE: Is Ethics a Cost or a Benefit to a Company?**

As companies continue to struggle with "doing the right thing" for customers, employees, and communities, there is an ongoing debate around the costs/benefits of ethics programs. Critics argue that the cost to identify risks, create programs, train employees, implement hotlines and other reporting mechanisms, and establish checks and balances is tremendous for organizations and requires a significant investment. Those who support the cost

of ethics programs recognize the benefits in providing employees with the guidance to navigate organizational risks and support the company's ethical culture, create trust in the marketplace that increases customer and employee loyalty, and prevent misconduct that can damage reputations and harm shareholder values. Those who support marketing ethics feel that any short-term costs are overshadowed by long-term gains, including financial performance.<sup>9</sup>

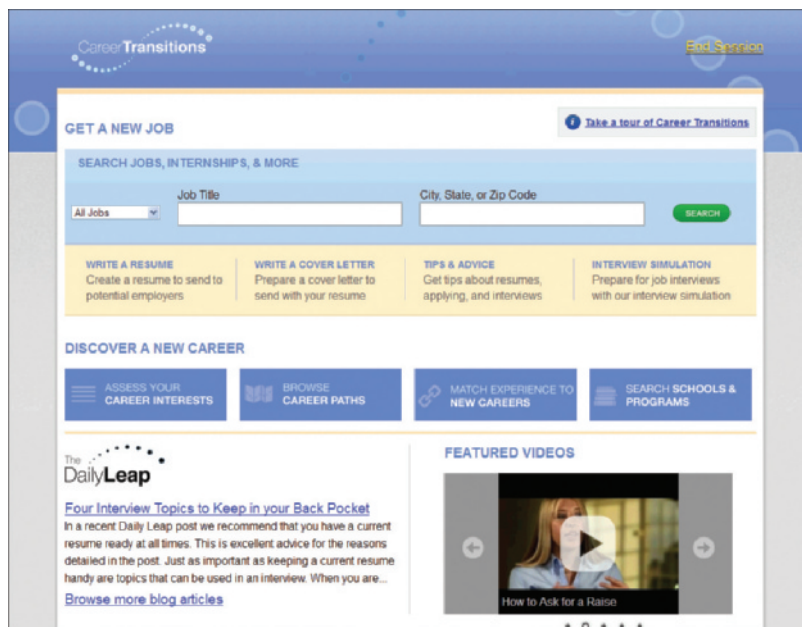
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- The *Entrepreneurship in Marketing* feature focuses on the role of entrepreneurship and the need for creativity in developing successful marketing strategies by featuring successful entrepreneurial companies like Skullcandy, Second City, Pixability, Quadlogic Controls, Tumblr, Kickstarter, Scentsy, and Warby Parker.
- 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 summary* reviews the major topics discussed, and the list of important terms provides another end-of-chapter study aid to expand students' marketing vocabulary.
- Discussion and review questions* at the end of each chapter encourage further study and exploration of chapter content, and *application questions* enhance students' comprehension of important topics.
- Additional application questions have been included to help students quantify and apply marketing strategies. These questions have been developed with higher-level Bloom's thinking in mind and for the sole purpose to guide students from basic knowledge of marketing concepts to application, analysis, and synthesis of marketing activities. Specific questions are intended to help students think through developing a marketing plan and are identified by the  icon.
- An *Internet exercise* at the end of each chapter asks students to examine a website and assess one or more strategic issues associated with the site. This section also points students toward the various learning tools that are available on the text's website.
- 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](http://www.cengagebrain.com). The *Developing Your Marketing Plan* feature allows students to explore each chapter topic in relation to developing and implementing a marketing campaign.



- Two *cases* at the end of each chapter help students understand the application of chapter concepts. One of the end-of-chapter cases is related to a video segment. Some examples of companies highlighted in the cases are Trek, Starbucks, Caterpillar, Dale Carnegie, Axe, Taza Chocolate, L.L.Bean, RogueSheep, New Belgium Brewery, Wyndham, and Standard Renewable Energy.
- A *strategic case* at the end of each part helps students integrate the diverse concepts that have been discussed within the related chapters. Examples include Apple Inc., Marriot, Chevrolet, GameStop, and Indy Racing League.
- A role-play case exercise at the end of each part encourages students to engage in a discussion of a marketing dilemma and provide a solution.
- *Appendixes* discuss marketing career opportunities, explore financial analysis in marketing, and present a sample marketing plan.
- A comprehensive *glossary* defines more than 625 important marketing terms.
- An online *Career Transitions* site will provide resources where students can search for marketing careers that meet their career goals, and search for suitable internships and full-time positions.



## TEXT ORGANIZATION

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

### Part 1 Marketing Strategy and Customer Relationships

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.

### Part 2 Environmental Forces and Social and Ethical Responsibilities

We examine competitive, economic, political, legal and regulatory, technological, and sociocultural forces that can have profound effects on marketing strategies in **Chapter 3**. In **Chapter 4**, we explore social responsibility and ethical issues in marketing decisions.

### Part 3 Marketing Research and Target Market Analysis

In **Chapter 5**, 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 6**, we deal with how to select and analyze target markets—one of the major steps in marketing strategy development.

- Part 4**     **Buying Behavior, Global Marketing, and Digital Marketing**  
We examine consumer buying decision processes and factors that influence buying decisions in **Chapter 7**. In **Chapter 8**, we explore business markets, business customers, the buying center, and the business buying decision process. **Chapter 9** focuses on the actions, involvement, and strategies of marketers that serve international customers. In **Chapter 10**, we discuss digital marketing, social media, and social networking.
- Part 5**     **Product Decisions**  
In **Chapter 11**, we introduce basic concepts and relationships that must be understood to make effective product decisions. We analyze a variety of dimensions regarding product management in **Chapter 12**, including line extensions and product modification, new-product development, and product deletions. **Chapter 13** discusses branding, packaging, and labeling. In **Chapter 14**, we explore the nature, importance, and characteristics of services.
- Part 6**     **Distribution Decisions**  
In **Chapter 15**, 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 16** explores retailing and wholesaling, including types of retailers and wholesalers, direct marketing and selling, and strategic retailing issues.
- Part 7**     **Promotion Decisions**  
We discuss integrated marketing communications in **Chapter 17**. The communication process and major promotional methods that can be included in promotion mixes are described. In **Chapter 18**, we analyze the major steps in developing an advertising campaign. We also define public relations and how it can be used. **Chapter 19** 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.
- Part 8**     **Pricing Decisions**  
In **Chapter 20**, we discuss the importance of price and look at some characteristics of price and nonprice competition. We explore fundamental concepts like demand, elasticity, marginal analysis, and break-even analysis. We then examine the major factors that affect marketers' pricing decisions. In **Chapter 21**, we look at the six major stages of the process marketers use to establish prices.

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## A COMPREHENSIVE INSTRUCTIONAL RESOURCE PACKAGE

For instructors, this edition 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 with features and multimedia (e.g., PowerPoint call-outs) incorporated
- 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 4,000 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, main text page reference, and AACSB standard coding. Instructors are able to select, edit, and add questions, or generate randomly selected questions to produce a test master for easy duplication. This test bank has been updated by Dr. Phylis Mansfield, Pennsylvania State University–Erie.

## 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 *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](http://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.



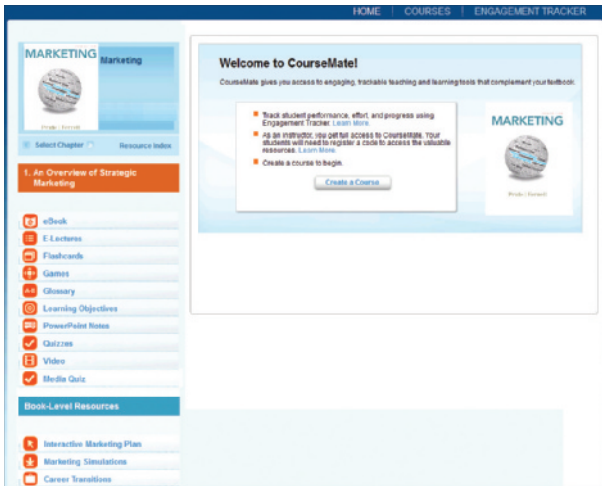
## Discussion Point

### Netflix alienates its target market

- Netflix revolutionized the video streaming and DVD rental business
- Netflix shocked customers when it announced price increases
- Over 82,000 angry comments were soon posted on the company's blog

? *Who is Netflix's target market?*

? *Have you ever provided feedback on a product through social media resources?*



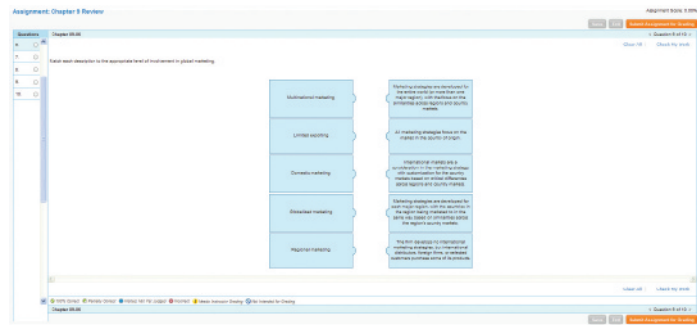
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**IMP** Interested in a simple way to complement your text and course content with study and practice materials? Cengage Learning’s Marketing CourseMate brings course concepts to life with interactive learning, study, and exam preparation tools that support the printed textbook. Watch student comprehension soar as your class works with the printed textbook and the textbook-specific website. Marketing CourseMate goes beyond the book to deliver what you need! Marketing CourseMate includes an interactive e-book as well as interactive teaching and learning tools including quizzes, flashcards, homework video cases, simulations, and more. Engagement Tracker monitors student engagement in the course.

## Cengagenow (For WebCT® and Blackboard®)

**IMP** Ensure that your students have the understanding they need of marketing procedures and concepts they need to know with CengageNOW. This integrated, online course management and learning system combines the best of current technology to save time in planning and managing your course and assignments. You can reinforce comprehension with customized student learning paths and efficiently test and automatically grade assignments.



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## Marketing Video Case Series

**IMP** 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 Shoes, Starbucks, Dale Carnegie, and Vans.

## Author’s 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.



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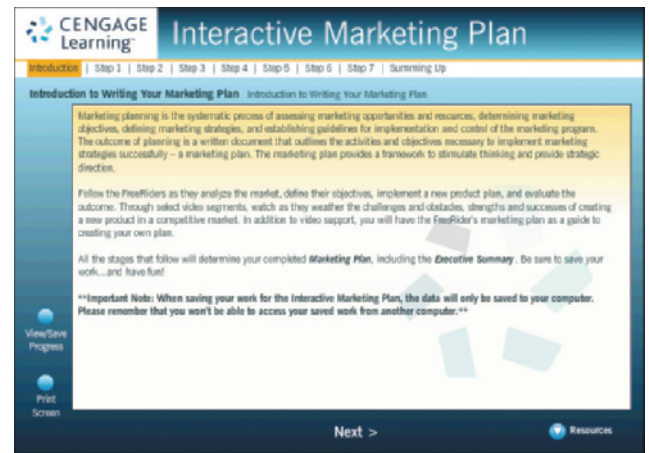
## Interactive Marketing Plan

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 act as the 1-2-3 punch supporting 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 over throughout the semester.

## SUPPLEMENTS TO MEET STUDENT NEEDS

The complete package available with *Marketing* includes support materials that facilitate student learning. To access additional course materials, including Marketing CourseMate, please visit [www.cengagebrain.com](http://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 this marketing course on a regular basis and test the materials included in the 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](mailto:w-pride@tamu.edu) or [OCFerrell@mgt.unm.edu](mailto:OCFerrell@mgt.unm.edu), or call 979-845-5857 (Bill Pride) or 505-277-3468 (O. C. Ferrell).

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**O. C. Ferrell**

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**William M. Pride** is Professor of Marketing, Mays Business School, at Texas A&M University. He received his PhD from Louisiana State University. In addition to this text, he is the co-author of Cengage Learning's *Business* text, a market leader. Dr. Pride teaches principles of marketing at both undergraduate and graduate levels and constantly solicits student feedback important to revising a principles of marketing text.

Dr. Pride's research interests are in advertising, promotion, and distribution channels. His research articles have appeared in major journals in the fields of marketing, such as the *Journal of Marketing*, the *Journal of Marketing Research*, the *Journal of the Academy of Marketing Science*, and the *Journal of Advertising*.

Dr. Pride is a member of the American Marketing Association, Academy of Marketing Science, Society for Marketing Advances, and the Marketing Management Association. He has received the Marketing Fellow Award from the Society for Marketing Advances and the Marketing Innovation Award from the Marketing Management Association. Both of these are lifetime achievement awards.

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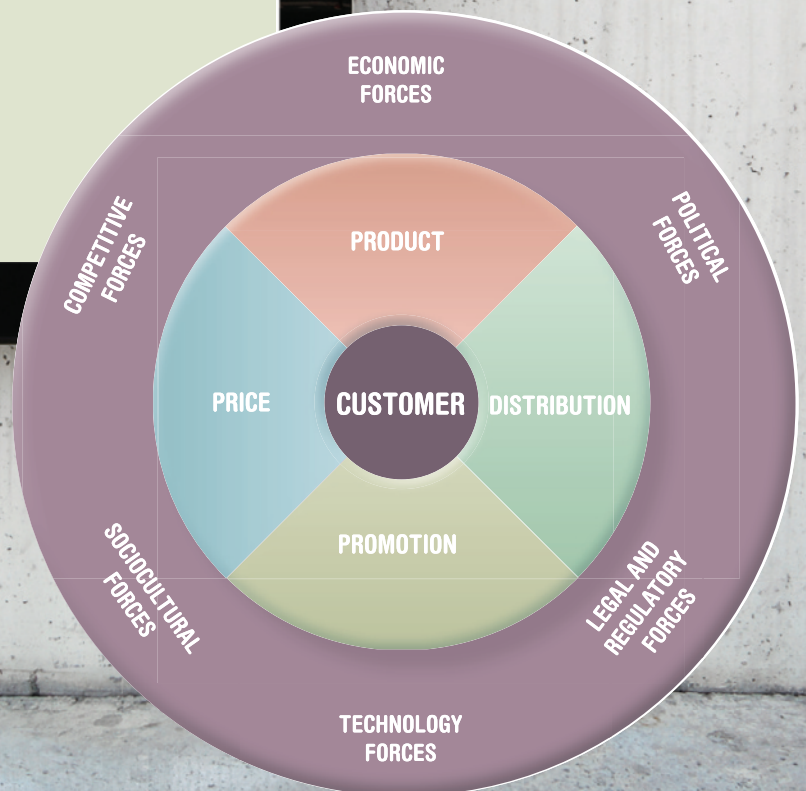
Dr. Ferrell is the co-author of 20 books and more than 100 published articles and papers. His articles have been published in the *Journal of Marketing Research*, the *Journal of Marketing*, the *Journal of Business Ethics*, the *Journal of Business Research*, the *Journal of the Academy of Marketing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

# Marketing Strategy and Customer Relationships

**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.

part 1

- 1: An Overview of Strategic Marketing 2
- 2: Planning, Implementing, and Evaluating Marketing Strategies 30





# chapter 1

## An Overview of Strategic Marketing

### OBJECTIVES

1. To be able to define *marketing* as focused on customers
2. To identify some important marketing terms, including target market, marketing mix, marketing exchanges, and marketing environment
3. To understand the relationship between marketing and value
4. To become aware of the marketing concept and market orientation
5. To understand the importance of building customer relationships
6. To recognize the role of marketing in our society

## MARKETING INSIGHTS

### Walmart Returns to Its Roots

Walmart has long been admired for its skill in implementing a superior marketing strategy. Its everyday low prices (EDLP) and basic products strongly appeal to its target market, mainly households that make below \$70,000 a year. However, trouble has come to Walmart due to changes in its marketing strategy. Walmart tried to broaden its customer base by selling more upscale products and compromising its position as a price leader. According to analysts, Walmart's attempt to be everything to everybody resulted in the alienation of its core market, which has likely contributed to its two years of declining U.S. sales.

To appeal to a higher-income market, Walmart began offering trendier items such as fashionable clothing and organic food. In the process, it removed items such as fishing tackle that were popular with its target market. The move resulted in higher prices for

some of its products, conflicting with Walmart's EDLP pricing strategy. Under normal economic conditions, this might not have been so problematic; however, during the most recent recession many of its customers were unhappy with Walmart's removal of basic items. They often switched to lower-priced rivals Dollar Tree and Family Dollar. Additionally, Walmart's upscale items failed to catch on with higher-income consumers.

After realizing its marketing mistakes, Walmart reintroduced many of the basic products that it had removed and returned to its EDLP strategy. It even closed its fashion office in New York to return to its Bentonville, Arkansas, roots. However, many former Walmart shoppers have expressed their belief that Walmart no longer offers the best prices. It may take time for Walmart to regain domestic market share and get back to its roots.<sup>1</sup>



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Like all organizations, Walmart 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 can impact the company's success. 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.

## DEFINING 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, distributing, promoting, and pricing 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.”<sup>2</sup>

**marketing** The process of creating, distributing, promoting, and pricing 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

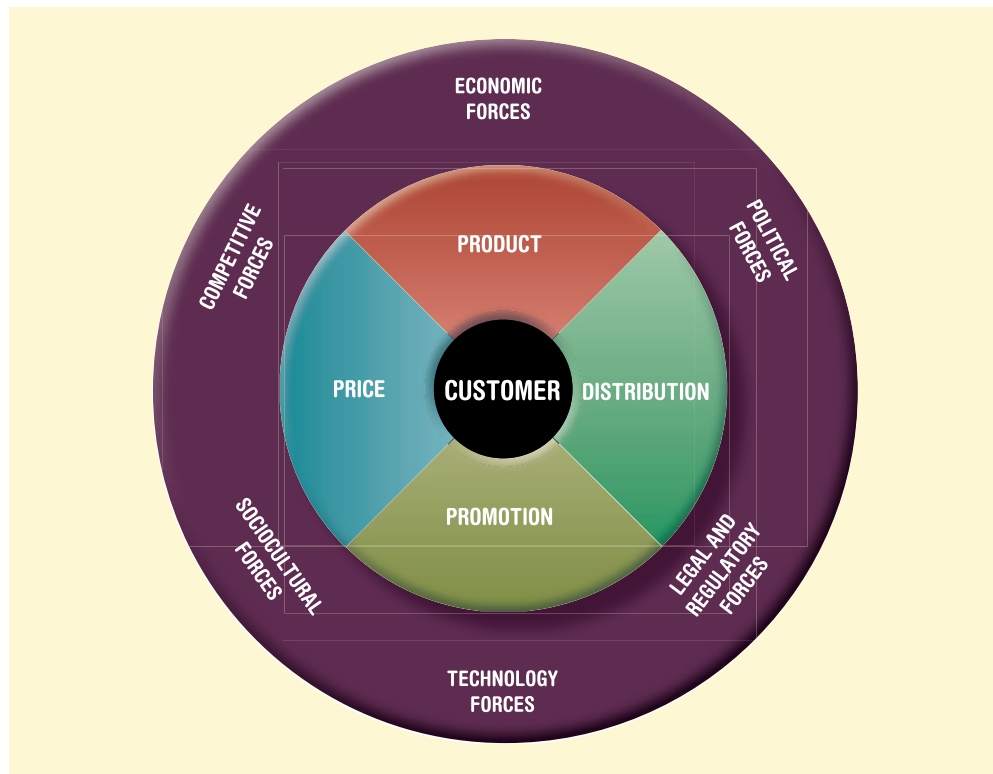
## Marketing Focuses on Customers

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). Organizations have to define their products not as what the companies make or produce but as what they do to satisfy customers. The Walt Disney Company is not in the business of establishing theme parks;

**Appealing to Target Markets**  
Marvel provides online entertainment to satisfy its customers.





**Figure 1.1** Components of Strategic Marketing

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it is in the business of making people happy. At Disney World, customers are guests, the crowd is an audience, and employees are cast members. Customer satisfaction and enjoyment can come from anything received when buying and using a product.

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 Taco Bell 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**. Marketing managers may define a target market as a vast number of people or a relatively small group. For instance, marketers are increasingly interested in Hispanic consumers. Within the last decade, Hispanics made up more than half of the population gains in the United States. The buying power of Hispanics is estimated to reach \$1.5 trillion by 2015. Procter & Gamble is one of many companies trying to capitalize on this trend. Procter & Gamble is hoping to court more Hispanic shoppers with Spanish labeling and products customized toward Hispanic tastes, such as lavender-scented Downy detergent.<sup>3</sup> Other companies target multiple markets with different products, promotions, prices, and distribution systems for each one. Vans shoes targets a fairly narrow market segment, especially compared to more diverse athletic shoe companies such as Nike and Reebok. Vans targets skateboarders and snowboarders between the ages of 10 and 24, whereas Nike and Reebok target most sports, age ranges, genders, and price points.<sup>4</sup>

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

## Emerging Trends

### Netflix Alienates Its Target Market

Even popular companies make mistakes in serving their target market. Netflix, a company that revolutionized the video streaming and rental business, did just that. In 2011 Netflix shocked customers when it announced price increases for its rental and streaming plans. In the case of one popular streaming and DVD plan, Netflix raised the price from \$9.99 to \$15.98 per month.

Price is a flexible but sensitive element of the marketing mix. While it is easy for a company to lower prices, it is harder to raise prices without customer dissatisfaction. This is why many organizations choose to raise prices gradually. Netflix's large price increase was an unwelcome surprise for many loyal customers. Approximately 82,000 angry comments were soon posted on the company's blog.

In September 2011, CEO Reed Hastings's announcement that the company was going to split into two entities, one for the DVD rental services and one for the streaming services, upset customers even more. Investors disliked the idea, causing the price of Netflix stock to decrease. Pressure finally caused Netflix to scrap its intention of splitting services.

Customer satisfaction is difficult to achieve, and a company must coordinate the marketing mix of product, price, distribution, and promotion. Netflix, which became successful because of its marketing concept, experienced a serious reaction from customers. It is working hard to restore customer and investor confidence.<sup>a</sup>

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## Marketing Deals with Products, Distribution, Promotion, and Price

Marketing is more than simply advertising or selling a product; it involves developing and managing a product that will satisfy customer needs. It focuses on making the product available in the right place and at a price acceptable to buyers. It also requires communicating information that helps customers determine if the product will satisfy their needs. These activities are planned, organized, implemented, and controlled to meet the needs of customers within the target market. Marketers refer to these activities—product, pricing, distribution, and promotion—as the **marketing mix** because they decide what type of each element to use and in what amounts. Marketing creates value through the marketing mix. A primary goal of a marketing manager is to create and maintain the right mix of these elements to satisfy customers' needs for a general product type. Note in Figure 1.1 that the marketing mix is built around the customer.

Marketing managers strive to develop a marketing mix that matches the needs of customers in the target market. For example, REI targets consumers who are serious about the outdoors. Although they charge higher prices than discount stores, REI offers a broad range of quality products for a number of outdoor activities. REI stores also offer lifetime memberships for a \$20 membership fee, which allows members to receive part of the company's profits based upon their purchases during the year.<sup>5</sup> Marketing managers must constantly monitor the competition and adapt their product, pricing, promotion, and distribution 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. For instance, when Ursula Burns became CEO of Xerox, she knew that the company would have to change its focus. Consumers, particularly the younger generation, were choosing to use digital technology over photocopiers and traditional printers. On the other hand, research showed that offices still required services such as printing. By offering to manage these services for companies, Xerox has created a profitable business in which approximately half of its

**marketing mix** Four marketing activities—product, pricing, distribution, and promotion—that a firm can control to meet the needs of customers within its target market

revenue comes from its service business.<sup>6</sup> 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.

## The Product Variable

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, Seven for All Mankind jeans, and Axe body spray are all examples of products. A service is the application of human and mechanical efforts to people or 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 schools.

The product variable also involves creating or modifying brand names and packaging and may include decisions regarding warranty and repair services. For example, the lawn care company TruGreen was originally branded as "Chemlawn." The company adapted its branding and products to provide a healthier and "greener" product offering.

Product variable decisions and related activities are important because they are directly involved with creating products that address customers' needs and wants. 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.

## The Distribution Variable

To satisfy customers, products must be available at the right time and in convenient locations. Subway, for example, locates not only in strip malls but also inside Walmarts, Home Depots, Laundromats, churches, and hospitals, as well as inside Goodwill stores, car dealerships, and appliance stores. There are more than 35,950 Subways in 98 different countries, surpassing McDonald's as the world's largest chain.<sup>7</sup>

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,

**product** A good, a service, or an idea



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### Types of Products

Vizio produces 3D technology, a tangible good, to allow consumers a differentiated product experience, while Verizon provides an intangible product through its cellular services.



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### Distribution

Starbucks increases its distribution channels by offering its coffee products through retail organizations, such as Barnes & Noble.

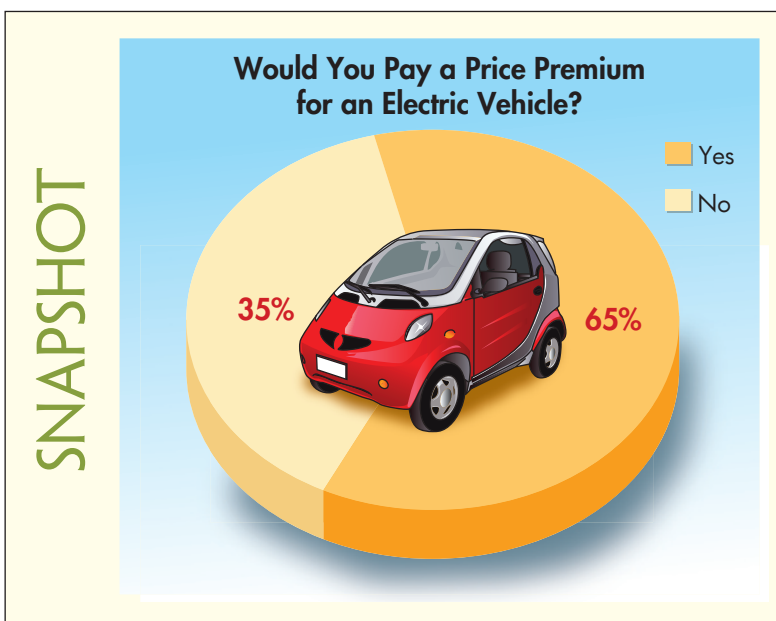
transportation, and storage costs as low as possible. A marketing manager also may select and motivate intermediaries (wholesalers and retailers), establish and maintain inventory control procedures, and develop and manage transportation and storage systems. The advent of the Internet and electronic commerce also has dramatically influenced the distribution variable. Companies now can make their products available throughout the world without maintaining facilities in each country. Apple has benefitted from the ability to download songs and apps over the Internet. Since the introduction of iTunes, 16 billion songs have been downloaded from its stores.<sup>8</sup> The company has supported growth and global success beyond the presence of physical Apple stores selling phones, computers, iPads, and accessories. We examine distribution issues in Chapters 15 and 16.

## The Promotion Variable

The promotion variable relates to activities used to inform individuals or groups about the organization and its products. Promotion can aim to increase public awareness of the organization and of new or existing products. Adidas, for example, wanted to increase awareness of its brands among teenagers. The company released television and Internet commercials featuring famous athletes promoting its brands. Its online commercial contained links to Facebook and Twitter for more up-to-date information on its products.<sup>9</sup>

Promotional activities also can educate customers about product features or urge people to take a particular stance on a political or social issue, such as smoking or drug abuse. For example, the National Highway Safety Traffic Administration released an ad campaign to deter drunk driving during the holiday season. The campaign carried the message that cops “would see you before you see them.” In the advertisement, a transparent cop watches drunk teenagers as they leave a party, only to have them arrested as they are driving home.<sup>10</sup>

Promotion can help to sustain interest in established products that have been available for decades, such as Arm & Hammer baking soda or Ivory soap. Many companies are using the Internet to communicate information about themselves and their products. Campbell’s Kitchen provides a diverse array of recipes, coupons, and discussion boards online to support the sales of their soups.<sup>11</sup>



Source: “Global Consumers Not Plugging into Electric Vehicles: Deloitte Survey,” October 4, 2011, [www.deloitte.com/view/en\\_GX/global/86cc3bd8e9fc2310VgnVCM3000001c56f00aR.CRD.htm](http://www.deloitte.com/view/en_GX/global/86cc3bd8e9fc2310VgnVCM3000001c56f00aR.CRD.htm) (accessed May 16, 2012).

## The Price Variable

The price variable relates to decisions and actions associated with establishing pricing objectives and policies and determining product prices. Price is a critical component of the marketing mix because customers are concerned about the value obtained in an exchange. Price is often used as a competitive tool, and intense price competition sometimes leads to price wars. High prices can be used competitively to establish a product’s premium image. Waterman and Mont Blanc pens, for

example, have 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 competitors. 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 with prices that low, providing Amazon with a considerable competitive advantage.

The 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 cannot be altered very often. In addition, promotional campaigns and methods used to distribute products ordinarily cannot be rewritten or revamped overnight.

## 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 benefits – customer costs). Consumers develop a concept of value through the integration of their perceptions of product quality and financial sacrifice.<sup>12</sup> From a company's perspective, there is a trade-off between increasing the value offered to a customer and maximizing the profits from a transaction.<sup>13</sup>

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 firm 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.<sup>14</sup> 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

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



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**Value-Driven Marketing**  
Cadbury provides a high-quality chocolate bar that satisfies customer desires at a premium price point.