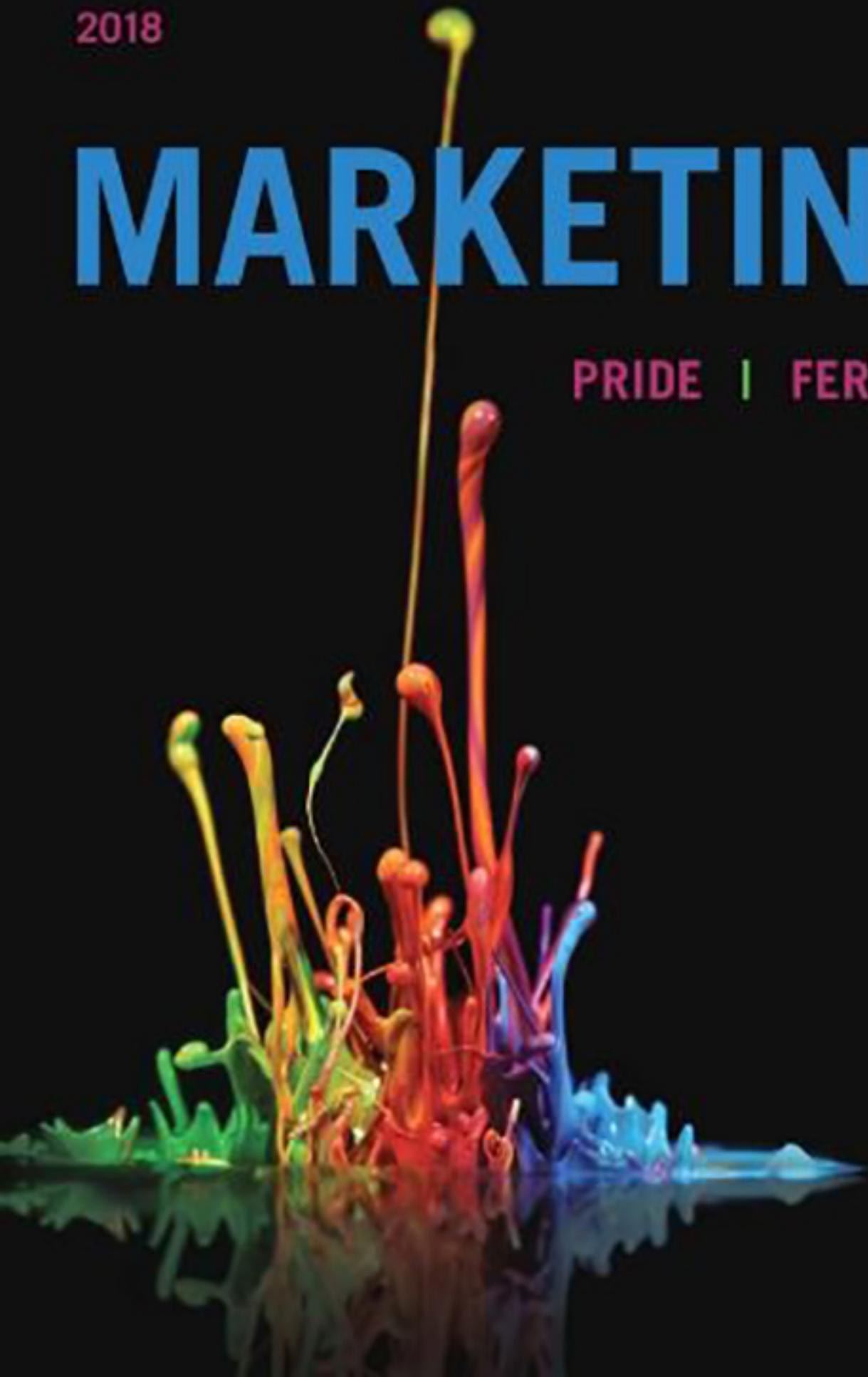


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Marketing, 2018**William M. Pride, O.C. Ferrell**Vice President, General Manager, Social
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Content Developer: Megan Fischer

Product Assistant: Allie Janneck

Marketing Manager: Charisse Darin

Content Project Manager: Megan Guiliani

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Analyst: Diane Garrity

Project Manager: Sarah Shainwald

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To Nancy, Allen, Carmen, Gracie, Mike, Ashley, Charlie, J.R.,
and Anderson Pride

To James Collins Ferrell and George Collins Ferrell

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Preface

MARKETING: A KEY TO SUCCESS

This edition of *Marketing* has been completely revised and updated to reflect dynamic changes in marketing and its environment. Marketing knowledge is important to every student's success, regardless of their career path. There is significant evidence that marketing is becoming a more important function in organizations, and students will need to be prepared to understand opportunities and challenges from a marketing perspective. This new edition provides the concepts, frameworks, and engagement in decision-making experiences that will prepare students for their careers. It is not enough to learn terminology and memorize concepts. To support success we provide a portfolio of learning devices to advance learning and critical thinking skills.

Active learning requires a holistic understanding with examples, exercises, and cases facilitated by MindTap, our online teaching experience. MindTap provides relevant assignments that guide students to analyze, apply, and improve thinking, allowing them to measure skills and outcomes with ease. This means that students using this book should develop respect for the importance of marketing and understand that the learning of marketing requires in-depth knowledge and the mastering of essential concepts. We have made the learning experience as fresh as possible with available research, new examples and boxes, as well as illustrations.

We address how technology is changing the marketing environment. As students prepare for the new digital world, they will also need to practice developing communication skills, especially teamwork, that go beyond their personal interaction with digital devices. Digital media can lower costs, generate awareness, build better relationships with customers, and achieve improved marketing research. Apps that connect consumers with products are creating opportunities for closer relationships. Buyers and sellers are entering zones of interdependency and co-creation of products. The sharing economy, defined as an economic concept harnessing peer-to-peer power and sharing underutilized resources such as automobiles, boats, and houses to earn income, is exploding. For example, Airbnb—a website that links people with renters of lodging accommodations—now has significantly more bookings each evening than Hilton.

We also provide numerous ancillary materials to aid in student comprehension of marketing concepts as well as to increase 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 how real-world companies address marketing challenges. Our video series has been expanded to include YouTube videos that can bring engagement and excitement to the classroom. 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 such as 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 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—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.

MARKETING INSIGHTS

Airbnb Facilitates the Sharing Lodging Experience



Airbnb has come far in the eight years it has been in business. The company started when founders Brian Chesky and Joe Gebbia turned their apartment into a bed and breakfast they could afford to present, and Airbnb takes 3 percent of the booking price when the property is rented out. Despite its immense success, Airbnb believes it can create more value for more customers by increasing its focus on...

- **Boxed features.** Each chapter includes two 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.** The Snapshot features are new and engage students by highlighting interesting, up-to-date statistics that link marketing theory to the real world.

- **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 ends of chapters will reveal where new content has been added. Many of the new examples and content changes have been updated to 2016.
- **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.



Source: Salesforce.com, 2015 State of Marketing Survey, p. 6.

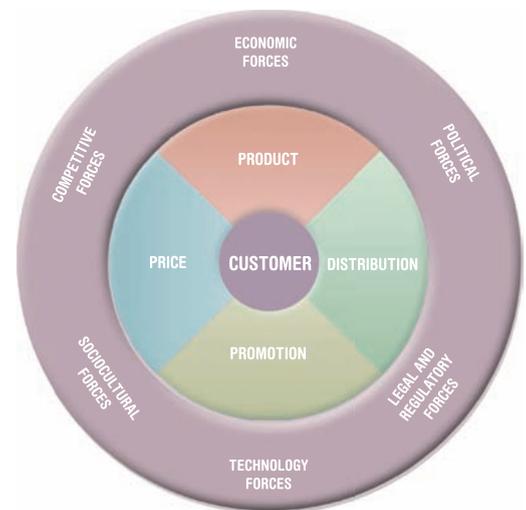
SNAPSHOT

- **New research.** Throughout the text we have updated content with the most recent research that supports the frameworks and best practices for marketing.
- **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 topics 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 be introduced to such companies as Airbnb, Primark, Farmgirl Flowers, and Dressbarn.
- **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.



EMERGING TRENDS IN MARKETING

Making Trade Fair

Fair Trade-certified organizations require factories to meet different conditions. They must pay their workers a minimum wage in the country in which they are employed, with the intention of working toward a “livable wage.” A livable wage allows workers to afford basic necessities. Additionally, brands must pay a premium to factory workers. These premiums are placed in a collective bank account and are used for bonuses or to address community needs.

The Fair Trade trend is gaining traction among fashion and home furnishings. After the Bangladesh factory collapsed in 2013, many apparel and home furnishing brands made a commitment to improve factory conditions. Twenty brands have chosen to become Fair Trade certified.

Consumers are embracing Fair Trade apparel and home goods as well. For instance, Bed Bath & Beyond quickly sold out of back-to-school supplies labeled as Fair Trade-certified. This demonstrates consumers’ increased concern for how goods are manufactured. In particular, Fair Trade certification focuses on improving the labor conditions of factory workers.

Although fair trade certification costs brands 1–5 percent of what companies pay to factories, it is clear that demand is on the rise. Fair trade apparel and home furnishings have increased fivefold in the past few years, spurring more factories to work toward achieving certification. Marketers monitoring the environment are finding the costs of Fair Trade well worth the benefits.*

- The *Emerging Trends* boxes cover such marketing phenomena as fair trade, marketing analytics, and shopping tourism. Featured companies include Harley-Davidson, USAA, Marvel, and Netflix.

MARKETING DEBATE

ISSUE: Should Drugstores Sell Tobacco Products?

When CVS announced it would stop selling tobacco products in 2014, the company acknowledged that this change in policy would cost it \$2 billion in annual revenues. Still, CVS wanted to highlight its commitment to helping customers stay healthy—and, in fact, it renamed the company CVS Health to spotlight that mission. Some health advocates and state attorneys general praised the move and called on CVS's competitors to follow suit by dropping cigarettes, cigars, and other tobacco products.

However, Walgreens and other drug retailers have not followed CVS's lead. According to a Walgreen's statement: "We believe that if the goal is to truly reduce tobacco use in America, then the most effective thing retail pharmacies

can do is address the root causes and help smokers quit." Walgreen's and other drug stores sell numerous smoking-cessation products, but they also tend to display packs of cigarettes near checkout counters, where they can catch the eye of shoppers.

Even if CVS's competitors decide to stop selling tobacco products, the change in policy might not make a huge difference in smoking rates because more cigarettes are sold at gas stations and convenience stores than in drug stores. Still, should stores that specialize in health-related goods and services continue to market tobacco products, which are legal but proven to be unhealthy?

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- The *Marketing Debate* marginal feature discusses controversial issues related to drugstores selling tobacco products, banning trans fat from food products, facial recognition and privacy, the truthfulness of native advertising, and surge pricing.

- The *Going Green* boxes introduce students to such topics as bio-plastics, algae biofuels, and natural claims on cigarette packaging. Featured companies include Campbell's, Walmart, and I Hotel.

GOING GREEN

Lego: Building with Bio-Plastics

The Lego Company has announced its most daring move yet in its sustainability efforts: getting rid of plastic. The Lego Company makes 60 billion blocks a year using the oil-based plastic ABS. It is estimated that Lego goes through 6,000 tons of plastic annually. The company has made a strategic decision toward sustainability in its products.

Lego has set the strategic goal of eliminating ABS plastics by 2030. The company estimates that about 75 percent of its carbon emissions come from extracting and refining oil for its use. Eliminating this type of plastic would there-

million toward developing the Lego Sustainable Materials Centre in Denmark. In particular, Lego is looking for a substitute for oil-based plastics and believes bio-based plastics may be the key.

Unfortunately, not everyone is confident Lego will succeed. ABS plastic is easily moldable, and it is an ideal composition for ensuring that each Lego piece fits together. Early forays into plant-based plastics show that this type of bio-plastic has difficulty clicking, sticking, and maintaining its shape. However, Lego is confident that it

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Entrepreneurship in Marketing

Protein Bar Restaurant: Satisfying Consumers

Founder: Matt Matros

Business: Protein Bar Restaurant

Founded: 2009, in Chicago, IL

Success: The Protein Bar restaurant has been featured in numerous newspapers and has expanded to four cities.

At 22, entrepreneur Matt Matros decided to drastically change his life. He lost 50 pounds through a strong regimen of exercise and a high-protein diet. Afterward, he decided to start the Chicago-based restaurant Protein Bar.

To be successful, Matros had to select the right mix of product, distribution, promotion, and price. Matros conceived of a casual dining restaurant that would offer

include burritos, salads, breakfast items, raw juices, and side dishes. Matros chose prices for these products that would be reasonable for on-the-go consumers who did not want to spend time making their own protein shakes.

The company has created publicity by recently teaming up with Chicago Bears wide receiver Brandon Marshall to promote a new Protein Bar drink called Crazy Stigma Green. For every drink purchased, \$1 is donated to the Project 375 Foundation. Protein Bar has also received coverage in newspapers such as *Washington Post* and *Chicago Tribune*. The restaurant has expanded to Washington D.C., Denver, and Boulder, Colorado. Matros has

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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 Protein Bar, Second City, Instacart, Honest Company, Counter Culture Coffee, and Scentsy.
- *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.
- 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 Dollar Shave Club, Alibaba, Blue Bell Creameries, Mattel, Hilton Worldwide, Zappos, Theo Chocolate, and CVS.
- 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 REI, IKEA, Patagonia, Sseko Designs, and Eaton. *Appendices* 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.

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. Also, we discuss a number of dimensions associated with branding and packaging. We analyze a variety of topics regarding product management in *Chapter 12*, including line extensions and product modification, new-product development, and product deletions. *Chapter 13* discusses services marketing.

Part 6 Distribution Decisions

In *Chapter 14*, 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 15* 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 16*. The communication process and major promotional methods that can be included in promotion mixes are described. In *Chapter 17*, we analyze the major steps in developing an advertising campaign. We also define public relations and how it can be used. *Chapter 18* 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 19*, we discuss the importance of price and look at some characteristics of price and nonprice competition. We explore fundamental concepts such as demand, elasticity, marginal analysis, and break-even analysis. We then examine the major factors that affect marketers' pricing decisions. In *Chapter 20*, we look at the six major stages of the process marketers use to establish prices.

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 Guides
- Purpose Statements
- Integrated Lecture Outlines
- Discussion Starter recommendations that encourage active exploration of the in-text examples
- Class Exercises and Semester Project Activities
- Suggested Answers to end-of-chapter exercises, cases, and strategic cases
- Guides 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. In this edition, you will find several new questions for each learning objective. Each objective test item is accompanied by the correct answer, appropriate Learning Objective, level of difficulty, Bloom's level of thinking, Program Interdisciplinary Learning Outcomes, and Marketing Disciplinary Learning Outcomes. Cengage Learning Testing powered by Cognero is a flexible, online system that allows you to:

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

American Marketing Association Professional Certified Marketer®

The American Marketing Association has recently started offering marketing graduates the opportunity of adding the AMA PCM® credentials to their undergraduate or MBA degree, which can serve as a symbol of professional excellence that affirms mastery of marketing knowledge and commitment to quality in the practice of marketing. Certification, which is

voluntary, requires passing a rigorous and comprehensive exam and then maintaining the certification through continuing education. Earning an AMA PCM certification demonstrates to employers, peers, and clients that the holder:

- Has mastered essential marketing knowledge and practices
- Goes the extra mile to stay current in the marketing field
- Follows the highest professional standards

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

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

PowerPoint Slides

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



Marketing Video Case Series

This series contains videos specifically tied to the video cases found at the end of the book. The videos include information about exciting companies such as New Belgium Brewing, Theo Chocolate, Alibaba, Louis Vuitton, and Luxottica. MindTap video exercises provide students with opportunities to use the videos to test and expand their knowledge. New to this edition are YouTube videos that have been selected by the authors specifically to be used in the classroom to engage students and illustrate marketing concepts.

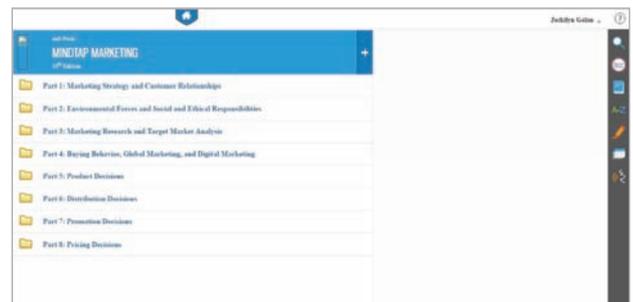
Online Role-Play Exercises

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

MindTap for Marketing

MindTap is a personalized teaching experience with relevant assignments that guide students to analyze, apply, and improve thinking, allowing them to measure skills and outcomes with ease.

- Personalized Teaching: Becomes yours with a learning path that is built with key student objectives. Control what students see and when they see it. Use it as-is or match to your syllabus exactly—hide, rearrange, add, and create your own content.



- Guide Students: A unique learning path of relevant readings, multimedia, and activities that move students up the learning taxonomy from basic knowledge and comprehension to analysis and application.
- Promote Better Outcomes: Empower instructors and motivate students with analytics and reports that provide a snapshot of class progress, time in course, and engagement and completion rates.

Author's Website

The authors also maintain a website at <http://prideferrell.net> to provide additional 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 after 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. These videos are in addition to the new set of YouTube videos described earlier.

Part 5: Building a Marketing Plan

1. Review the product description you wrote in the first assignment. Is your product for consumers or businesses? If it's a consumer product, would you classify it as a convenience product (something fairly inexpensive and frequently purchased), a shopping product (something consumers will invest effort in researching and buying), a specialty product (something with unique characteristics that consumers will spend time obtaining), or an unsought product (something that consumers don't plan to buy but may suddenly need or be unaware of until needed)? What does this classification mean in terms of how you market to your customers? For example, if yours is a convenience product, you should make it widely available, because customers won't spend a lot of time researching it and trying to find it. Write a paragraph to summarize your ideas about the product's classification and the implications for your plan.
2. If your product is for businesses, would you classify it as an installation (a facility, for instance, or a piece of heavy machinery), accessory equipment (such as file cabinets and tools), raw materials (such as ingredients for food), component parts (such as preassembled clocks for car dashboards), process materials (used in manufacturing another product), MRO supplier (maintenance, repair, and operating items that aren't part of the finished product, like cleaning supplies), or business services (such as marketing research services)? Why would a business need a product like yours, what would it buy such a product, and what are the implications for your marketing plan? Write a paragraph summarizing your ideas.
3. You have more decisions to make about your product. Where in the product life cycle is it? How long do you expect your product to remain in its current stage? What does this mean for your sales and profitability? Also consider the product adoption process, meaning how long consumers in your target market might need to try and ultimately adopt your product. What marketing steps can you take to encourage product adoption and to boost sales and profitability during the product's life cycle, in the context of your resources and competition? Write 1-2 paragraphs summarizing your ideas, including a very rough estimate of costs and, if possible, a break-even table for your activities.

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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 or ocferrell@gmail.com, or call 979-845-5857 (Bill Pride).

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David Andrus
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Joseph Ballenger

Stephen F. Austin State University

Frank Barber
Cuyahoga Community College

Thomas E. Barry
Southern Methodist University

Richard C. Becherer
University of Tennessee–Chattanooga

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Reinhardt College

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York University

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Roger Blackwell
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Texas Southern University

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William M. Pride

O. C. Ferrell

ABOUT THE AUTHORS

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 coauthor 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.

O. C. Ferrell is The James T. Pursell Sr. Eminent Scholar Chair in Ethics and Director of the Center for Ethical Organizational Cultures at Auburn University's Raymond Harbert College of Business. He was previously a University Distinguished Professor of Marketing at the Anderson School of Management, University of New Mexico. He has also been on the faculties of Belmont University, the University of Wyoming, Colorado State University, University of Memphis, Texas A&M University, Illinois State University, and Southern Illinois University. He received his PhD in marketing from Louisiana State University.

Dr. Ferrell is president-elect of the Academy of Marketing Science. He is past president of the Academic Council of the American Marketing Association and chaired the American Marketing Association Ethics Committee. Under his leadership, the committee developed the AMA Code of Ethics and the AMA Code of Ethics for Marketing on the Internet. In addition, he is a former member of the Academy of Marketing Science Board of Governors and is a Society of Marketing Advances and Southwestern Marketing Association Fellow and an Academy of Marketing Science Distinguished Fellow. He has served for nine years as the vice president of publications for the Academy of Marketing Science. In 2010, he received a Lifetime Achievement Award from the Macromarketing Society and a special award for service to doctoral students from the Southeast Doctoral Consortium. He received, from the Academy of Marketing Science, the Harold Berkman Lifetime Service Award and, more recently, the Cutco Vector Distinguished Marketing Educator Award.

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*, *AMS Review*, and the *Journal of Public Policy & Marketing*, as well as other journals.



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part 1

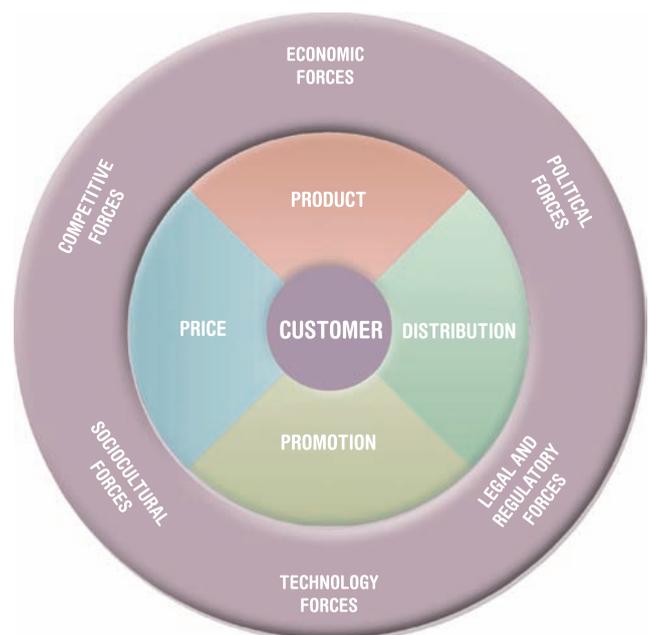
Marketing Strategy and Customer Relationships

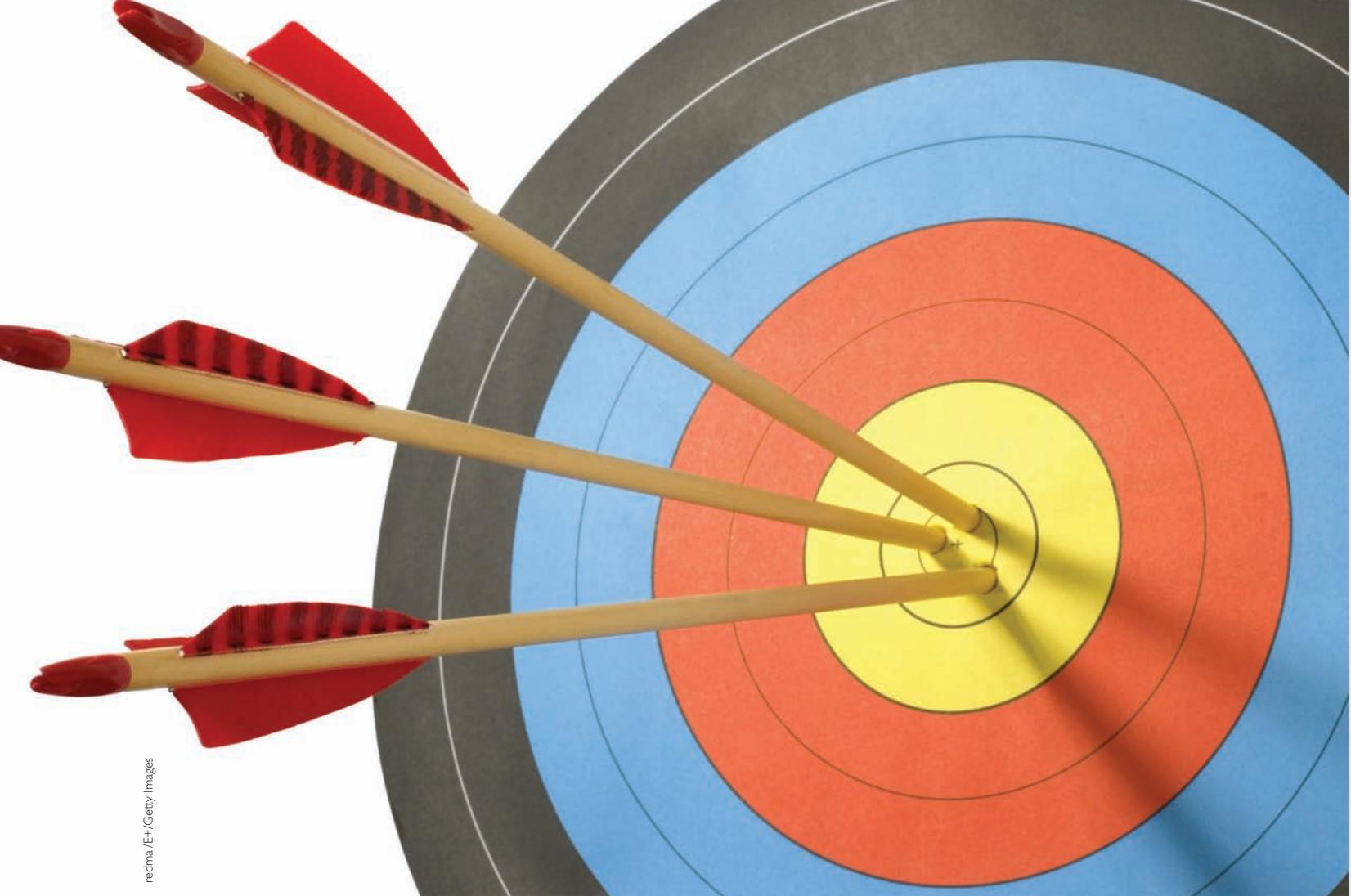
- 1: An Overview of Strategic Marketing
- 2: Planning, Implementing, and Evaluating Marketing Strategies

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.





redmal/E+/Getty Images

chapter 1

An Overview of Strategic Marketing

OBJECTIVES

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

MARKETING INSIGHTS

Airbnb Facilitates the Sharing Lodging Experience



Airbnb has come far in the eight years it has been in business. The company started when founders Brian Chesky and Joe Gebbia turned their apartment into a bed and breakfast so they could afford to pay rent. The founders had identified an unmet customer need: the desire to stay in less expensive but homier lodgings. They launched the Airbnb website in 2007 to connect travelers to people in the area willing to rent out their couch or extra room. Like Uber, the car-sharing service, Airbnb embraces the sharing economy concept that promotes the renting of underutilized human and physical resources. It sells more rooms per night than Hilton.

The target market was initially conference attendees but soon expanded to all types of travelers. Today Airbnb connects travelers to lodgings in 34,000 cities across 190 countries. Those who wish to rent an extra room or house can set their own prices,

and Airbnb takes 3 percent of the booking price when the property is rented out.

Despite its immense success, Airbnb believes it can create more value for more customers. For instance, it began to offer Business Travel on Airbnb to concentrate on corporate clients. Airbnb claims it has signed up 700 businesses including Google and Salesforce.com. It is especially popular among new employees who are being put up by an employer until they find a more permanent location.

Not all stakeholders are happy about Airbnb, however. Some cities and regulators believe Airbnb encourages owners of multiple properties to rent them in the short-term rather than turning them into long-term residences—thus causing a disruption in urban housing. However, Airbnb contends that it is creating customer value in the form of less-expensive lodging for travelers and additional income for renters.¹

Like all organizations, Airbnb strives to provide products that customers want, communicate useful information about them to excite interest, make them available when and where customers want to buy them, and price them appropriately. Even if an organization does all these things well, however, competition from marketers of similar products, economic conditions, and other factors can affect 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.

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

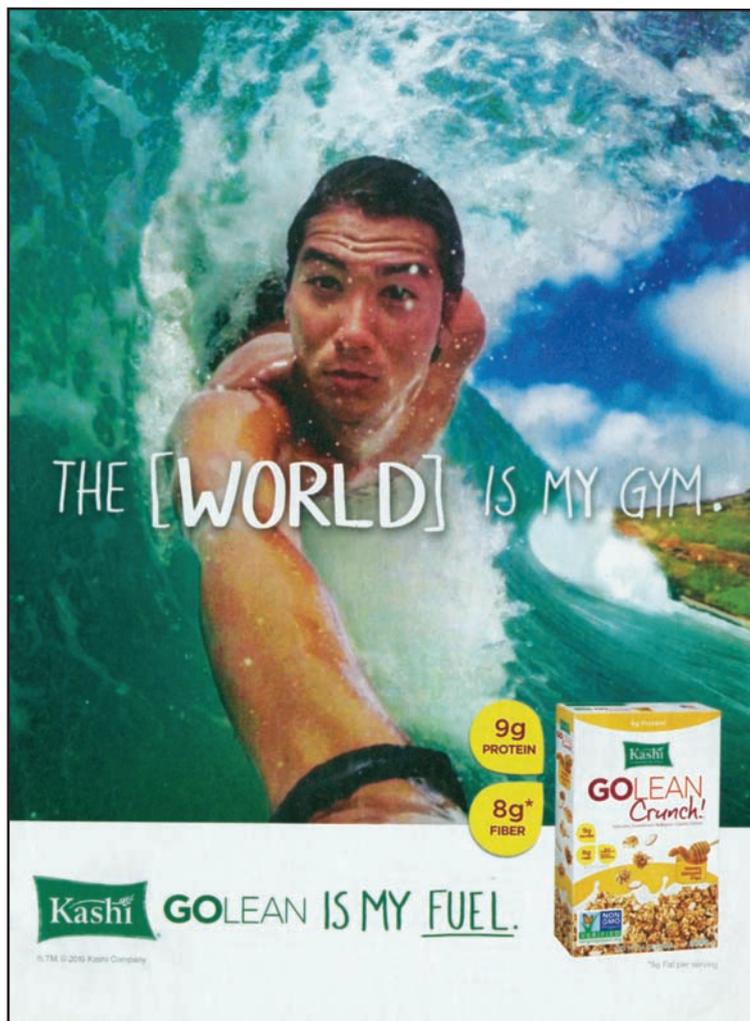
1-1 DEFINING MARKETING

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.”²

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

The marketing mix variables—which include product, distribution, promotion, and price—are often viewed as controllable because they can be modified. However, there are limits to how much marketing managers can alter them. Competitive forces, economic conditions, political forces, laws and regulations, technology, and sociocultural forces shape the decision-making environment for



Source: Kashi ad

Appealing to Target Markets

Kashi appeals to consumers who desire a nutritious breakfast.

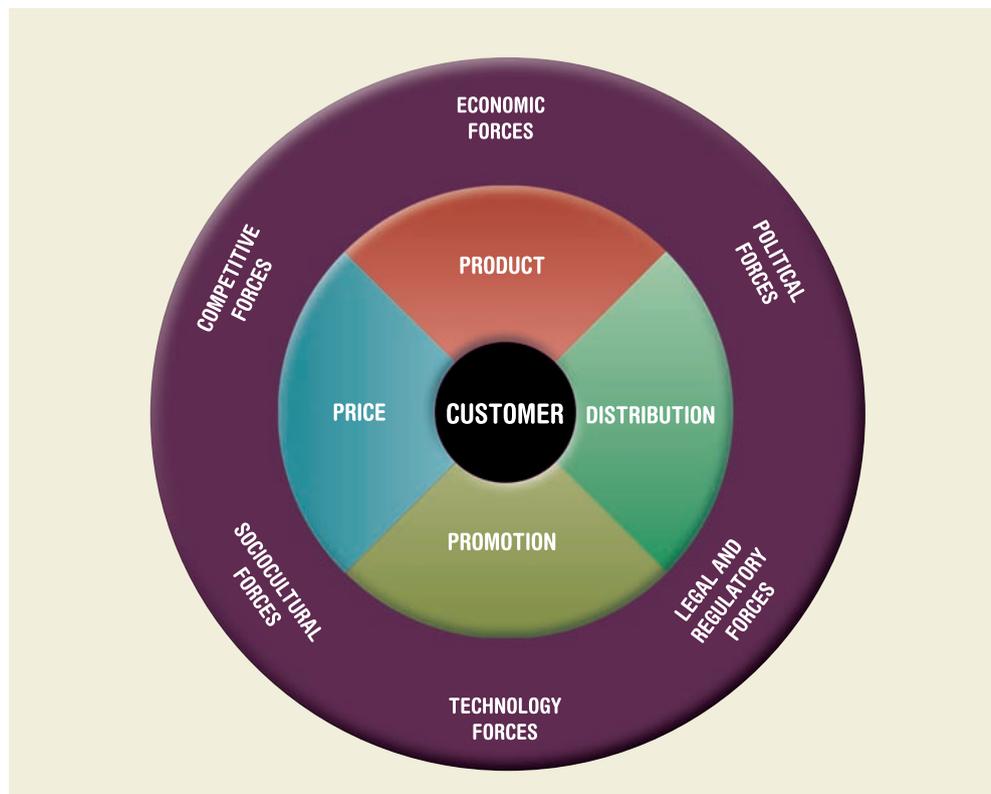
controllable variables. While some products are tangible goods, services are also products and represent a significant part of the economy. Entire industries such as health care, entertainment, sports, and hospitality and tourism provide services.

1-1a Marketing Focuses on Customers

As the purchasers of the products that organizations develop, distribute, promote, and price, **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 Kashi brand, for example, creates products that satisfy customer needs, especially those who are looking for a nutritious alternative to more traditional cereals. The Kashi advertisement of a surfer emphasizes how the health benefits of Kashi cereal help active individuals live life to the fullest.

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. As a result, marketers are developing new ways to reach this demographic. For instance, Macy's has increased bilingual signage in its stores and launched a line of clothing by Mexican singer Thalía Sodi.³ Often companies target multiple markets with different products, distribution systems, promotions, and prices for each one. Others focus on a smaller niche market. Lehman's Hardware, for example, originally targeted the Amish community with simple non-electric products. Today Lehman's markets "simple products for a simpler life" not only to Amish customers, but also to environmental advocates, Peace Corps volunteers, and even movie producers who have used Lehman's products in movies such as *Pirates of the Caribbean*.⁴ Home Depot, on the other hand, targets a number of markets with thousands of product items. It provides home improvement products for both household consumers and contractors.

Figure 1.1 Components of Strategic Marketing



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

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

1-2 **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 also requires promotion that helps customers to learn about the product and determine if the product will satisfy their needs. It focuses on communicating availability in the right place and at the right price. 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, distribution, promotion, and pricing—as the **marketing mix** because they decide what type of each variable to use and how to coordinate the variables. Marketing creates value through the marketing mix. A primary goal of a marketing manager is to create and maintain the right mix of these variables to satisfy customers' needs for a general product type. Apple is well-known for its implementation of the marketing mix. It routinely engages in research and development to create new or upgraded products. It promotes these products through advertising, social media, and media events. Apple distributes the products through its own retail stores, AT&T, and other service providers, as well as through the Internet. It provides these products at a premium price to convey their quality and effectiveness. 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. Clothing retailer Billabong, for example, targets shoppers with an active lifestyle with snowboarding, surfing, and skateboarding clothing and accessories. The company distributes these products through stores in shopping malls at competitive prices and supports them with promotional activities such as advertising and social media. Additionally, marketing managers must constantly monitor the competition and adapt their products, distribution decisions, promotion, and pricing to foster long-term success.

Before marketers can develop an appropriate 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. Billabong, for example, has to closely monitor fashion trends and adjust its marketing mix accordingly to continue to satisfy its target market. Armed with market information, marketing managers are better able to develop a marketing mix that satisfies a specific target market.

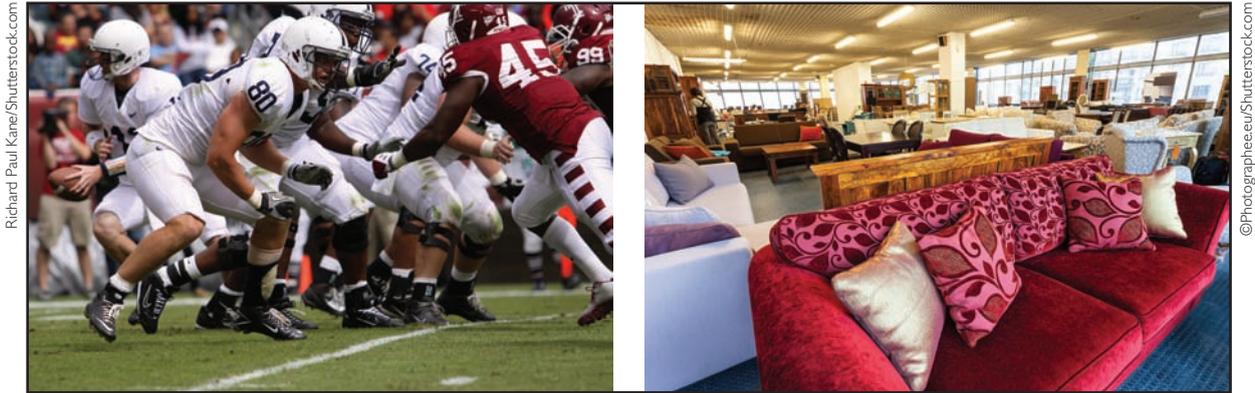
Let's look more closely at the decisions and activities related to each marketing mix variable.

1-2a **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 professional sports such as baseball, basketball, hockey, and football. 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, Ford F-150 trucks, and iPhones 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, insurance, banking, health 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

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

product A good, a service, or an idea



Types of Products

Sports events are intangible products that provide fans with a fun experience. Furniture represents a tangible good that consumers use for comfort and relaxation.

ideas to help improve their relationship. Other marketers of ideas include political parties, churches, and animal protection groups.

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

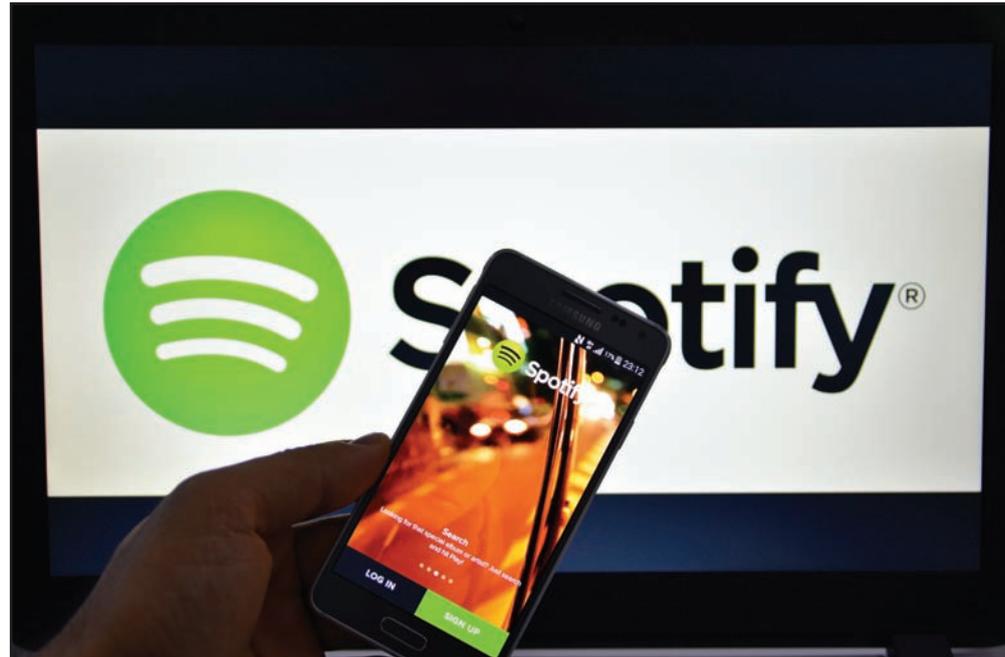
Product variable decisions and related activities are important because they directly relate to customers' needs and wants. Apple continues to upgrade its iPhone using different model numbers such as 5, 6, and 7 to signal new modifications. To maintain an assortment of products that helps an organization achieve its goals, marketers must develop new products, modify existing ones, and eliminate those that no longer satisfy enough buyers or that yield unacceptable profits.

1-2b The Distribution Variable

To satisfy customers, products must be available at the right time and in appropriate locations. Subway, for example, locates its restaurants 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 44,489 Subways in 111 different countries, surpassing McDonald's as the world's largest chain.⁵

In dealing with the distribution variable, a marketing manager makes products available in the quantities desired to as many target-market customers as possible, keeping total inventory, transportation, and storage costs as efficient as possible. A marketing manager also may select and motivate intermediaries (wholesalers and retailers), establish and maintain inventory control procedures, and develop and manage transportation and storage systems. All companies must depend on intermediaries to move their final products to the market. The advent of the Internet and electronic commerce also has dramatically influenced the distribution variable. Consider Amazon's distribution system that is now integrating its own warehousing and transportation to deliver products—sometimes the same day they are ordered. Companies now can make their products available throughout the world without maintaining facilities in each country. For instance, Pandora and Spotify have benefitted from the ability to stream music over the Internet. Customers can listen to music for free with commercial interruptions, or they can pay to upgrade to listen without commercials. Pandora has 80 million active users, while Spotify has 60 million.⁶

endemasall/Shutterstock.com



Distribution

Spotify uses digital distribution to allow consumers to stream videos, podcasts, and music. For paid premiums, users can view entertainment uninterrupted by commercials.

1-2c The Promotion Variable

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

Promotional activities can inform customers about product features. The Purina advertisement, for instance, describes how its ONE[®] cat food is made from real poultry and fish and that its veterinarian-recommended formula is nutritious for all ages of cats. In addition, promotional activities can urge people to take a particular stance on a political or social issue, such as smoking or drug abuse. For example, the U.K. nonprofit Women's Aid released an experiential marketing campaign to draw attention to victims of domestic violence. The organization used a pro bono agency to install billboards depicting a bruised woman. The billboards were equipped with facial recognition software so that when people walked by and looked at the advertisement, the bruises would "heal" to demonstrate that ordinary people can work toward stopping domestic violence.⁷

Promotion can also help to sustain interest in established products that have been available for decades, such as Jell-O or Tide detergent. Many companies are using the Internet to communicate information about themselves and their products. Trader Joe's website provides a diverse array of recipes using ingredients that can be found in its stores.⁸

1-2d The Price Variable

The price variable relates to decisions and actions associated with pricing objectives and policies and actual 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. Higher prices can be used competitively to establish a product's premium image. Seven 4 All Mankind jeans,

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 (consider Walmart's tagline "Save Money, Live Better"). Amazon uses its vast network of partnerships and cost efficiencies to provide products at low prices. Brick-and-mortar retailers have not been able to offer comparable products 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.

1-3 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.⁹ 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.¹⁰

Customer benefits include anything a buyer receives in an exchange. Hotels and motels, for example, basically provide a room with a bed and bathroom, but each firm provides a different level of service, amenities, and atmosphere to satisfy its guests. Motel 6 offers the minimum services necessary to maintain a quality, efficient, low-price overnight accommodation. In contrast, the Ritz-Carlton provides every imaginable service a guest might desire. The hotel even allows its staff members to spend up to \$2,000 to settle customer complaints.¹¹ Customers judge which type of accommodation offers the best value according to the benefits they desire and their willingness and ability to pay for the costs associated with the benefits.

Source: Purina advertisement

Trademarks owned by Société des Produits Nestlé S.A., Vevey, Switzerland

ONE Food.
Whole Body Health For Life.

VETERINARIAN RECOMMENDED

PURINA ONE
PURPOSEFUL NUTRITION
FOR LIFELONG WHOLE BODY HEALTH

HEALTHY KITTEN FORMULA
#1 REAL CHICKEN #1
100% NUTRITION
46% PROTEIN
PREMIUM KITTEN FOOD FOR UP TO 1 YEAR

SALMON & TUNA FLAVOR
#1 REAL CHICKEN #1
100% NUTRITION
36% PROTEIN
CAT FOOD FOR ADULTS

VIBRANT MATURITY 7+
#1 REAL CHICKEN #1
100% NUTRITION
38% PROTEIN
PREMIUM CAT FOOD FOR ADULTS

100% NUTRITION
FOR EACH LIFE STAGE
REAL POULTRY OR FISH #1*

Veterinarian recommended Purina ONE® formulas provide all the nutrition your cat needs and nothing they don't. With 0% fillers, every ingredient has a purpose to help support their whole body health for life.

facebook.com/purinaonecats
*includes urinary tract health formula

PurinaONE.com/WholeBodyHealthCat

Promotional Activities

This Purina advertisement informs the audience about how its ONE® formula is full of nutritious ingredients for cats.

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