**Chapter 1**

**Welcome to the World of Marketing:**

**Create and Deliver Value**

## I. Chapter Overview

Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large. Therefore, marketing is all about delivering value to stakeholders, that is, to everyone who is affected by a transaction. Organizations that seek to ensure their long-term profitability by identifying and satisfying customers’ needs and wants adopt the marketing concept.

In Chapter 1, these concepts are explored. In addition, students learn the definition of product and benefit. Students are introduced to the 4 Ps and their interdependent relationship. Students quickly learn that marketing is a part of our everyday life.

## II. Chapter OBJECTIVES

* Explain what marketing is, including the marketing mix, what can be marketed, and the value of marketing.
* Explain the evolution of the marketing concept.
* Understand value from the perspectives of customers, producers, and society.
* Explain the basics of market planning.

## III. Chapter Outline

The outline also includes a feature entitled “Marketing Moment,” which is identified by an arrow icon (►). These are short, in-class activities—appropriate for either individual or group work.

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| **►Marketing Moment Introduction**  Use a top of mind awareness exercise to introduce the different facets of marketing. Instruct students to write down the first word that pops into their head when you say these words: your school name, soup, jeans, marketing, and salesperson. Explain that school name, soup and jeans were just “warm ups.” (Although Campbell’s is likely to be the most popular answer for soup—this is great time to illustrate dominant market share). Most students will respond “advertising” or “sales” in response to marketing—this gives the instructor a chance to introduce the marketing mix and make that point that marketing covers more than just communication. | | | |
| p. 3 | **Real People, Real Choices—HERE’S MY PROBLEM at PANDORA**  Chapter One begins with a discussion of *Pandora*, an internet radio company that creates personalized radio stations for its listeners. Pandora uses the *Music Genome Project*, which classifies similar songs for details such as melody, harmony, instrumentation, rhythm, vocals, and lyrics. The company needed to focus on generating listeners in order to entice advertisers to buy space on its site, so it hired Joe Kennedy to build a solid customer base. Joe considered three options to make music lovers aware of the value *Pandora* offered:   1. Launch an advertising campaign on radio stations, in music magazines and at record stores 2. Build a buzz about Pandora through word of mouth 3. Sell the service to a large chain of record stores, a music magazine, or even a record label   Joe chose option 2. | Visit the Pandora Website here—  [www.pandora.com](http://www.pandora.com) | |
| p. 4  p. 4  p. 5  p. 5  p. 6  p. 6  p. 6  p. 7  p. 7  p. 7  p. 7  p. 8 | 1. **mARKETING: what is it?**   Marketing is first and foremost about satisfying consumer needs. We like to say that the consumer is king (or queen), but it’s important not to lose sight of the fact that the seller also has needs—to make a profit, to remain in business, and even to take pride in selling the highest-quality products possible. Products are sold to satisfy both consumers’ and marketers’ needs—it’s a two-way street. **Marketing** is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.  **1.1** **Marketing Is the Activity, Institutions, and Processes**  The importance organizations assign to marketing activities varies a lot. Sometimes a company uses the term *marketing* when what it really means is sales or advertising. No matter what size the firm, a marketer’s decisions affect—and are affected by—the firm’s other operations.  **1.2** **Creating, Communicating, Delivering, and Exchanging: The Marketing Mix**  To satisfy needs, marketers need many tools. The **marketing mix** consists of the tools the organization uses to create a desired response among a set of predefined consumers. These tools include the product, the price, the promotional activities and the places. We refer to the marketing mix as the **four Ps**  Although we talk about the Four Ps as separate parts of a firm’s marketing strategy, in reality, product, price, promotion, and place decisions are interdependent. Decisions about any one of the four are affected; and affect every other marketing-mix decision. Let’s look at each of the four Ps to gain some more insight into their role in the marketing mix.  **1.3 Product**  The product is a good, a service, an idea, a place, and a person—whatever is offered for sale in the exchange. This aspect of the marketing mix includes the design and packaging of a good, as well as its physical features and any associated services, such as free delivery.  **1.4 Promotion**  **Promotion,** often referred to as marketing communications, includes all the activities marketers undertake to inform consumers about their products and to encourage potential customers to buy these products.  **1.5 Place**  **Place** refers to the availability of the product to the customer at the desired time and location. This *P* relates to a *supply chain*—the set of firms that work together to get a product from a producer to a consumer.  **1.6 Price**  **Price** is the assignment of value, or the amount the consumer must exchange to receive the offering. Marketers often turn to price to increase consumers’ interest in a product.  At the heart of every marketing act—big or small—is an “exchange relationship.” An **exchange** occurs when a person gives something and gets something else in return.  **1.7 Offerings . . . : What Can We Market?**  We’ll refer to any good, service, or idea that we can market as a product, even though what you buy may not take a physical form.  **1.8 Consumer Goods and Services**  **Consumer goods** are the tangible products that individual consumers purchase for personal or family use. **Services** are intangible products that we pay for and use but don’t own. In both cases, though, keep in mind that the consumer looks to obtain some underlying value, such as convenience, security, or status, from a marketing exchange. 1.9 Business-to-Business Goods and Services **Business-to-business marketing** is the marketing of goods and services from one organization to another. Although we usually relate marketing to the thousands of consumer goods begging for our dollars every day, the reality is that businesses and other organizations buy a lot more goods than consumers do. They purchase these **industrial goods** for further processing or to use in their own business operations.  **E-commerce** is the buying and selling of products on the Internet.  **1.10 Not-for-Profit Marketing**  You don’t have to be a businessperson to use marketing principles. Many **not-for-profit organizations** also known as **nongovernmental organizations or NGOs**, including museums, zoos, and even churches, practice the marketing concept.  The intense competition for support of civic and charitable activities means that only the not-for-profits that meet the needs of their constituents and donors will survive.  **1.11 Idea, Place, and People Marketing**  Marketing principles are also used to market ideas, places, and people. Examples include:   * Tourism marketing * Convincing consumers to wear seatbelts * Promoting rock and sports stars   Some of the same principles that go into “creating” a celebrity apply to you. An entertainer— whether Beyoncé or Selena Gomez —must “package” her talents, identify a marketthat is likely to be interested, and work hard to gain exposure to these potential customers by appearing in the right musical venues  . | Figure 1.1  Exhibit 1. Fence Me In | |
| **Website:** Big Brothers Big Sisters is an example of a non-profit organization. What benefits are offered to the volunteer? Can you cite examples of societal marketing on this site?  [www.bbbs.org](http://www.bbbs.org) Go to Volunteer page.  Discussion question: Have you ever thought about the fact that not-for-profit companies need to use marketing as well? If not, why? | | | |
| p. 8 | **2. value for customers**  **2.1** According to the **marketing concept**, marketers first identify consumer needs and then provide products that satisfy those needs to ensure the firm’s long-term profitability. A **need** is the difference between a consumer’s actual state and some ideal or desired state. When the difference is big enough, the consumer is motivated to take action to satisfy the need. Needs relate to physical functions (such as eating) or to psychological ones (such as social acceptance). The specific way a person satisfies a need depends on his or her unique history, learning experiences, and cultural environment. | Exhibit 1. Valdorfo Ketchup | |
| Website: Subaru is one company that tries to meet the psychological needs of consumers to feel safe (as well as their need for reliable transportation). Visit the Subaru website:  [www.**Subaru**.com](http://ri.search.yahoo.com/_ylt=A0LEVj6nQhdUkGQAN3kPxQt.;_ylu=X3oDMTB2YmRjZm1rBHNlYwNvdi10b3AEY29sbwNiZjEEdnRpZAMEcG9zAzE-/RV=2/RE=1410839335/RO=10/RU=http%3a%2f%2f0.r.msn.com%2f%3fld%3dDvNT0edO1A6XDdprPQoYjQsjVUCUyt9PjrYHBpLrttrC47FKRCQWXIplYG_joZUpcpyJ-S96CZTU0Puuof5EC9HfyiZbo7mkPr7hzqA5mE92IASA4b5zws5jFGQt0wklaLGtfWj93Dcmih5Vw9sZBSqPWP4rw%26u%3dhttp%253a%252f%252f133.xg4ken.com%252fmedia%252fredir.php%253fprof%253d87%2526camp%253d4074%2526affcode%253dkw77355%2526cid%253d6160519975%2526queryStr%253dsubaru%252520website%2526url%255b%255d%253dhttp%25253A%25252F%25252Fwww.subaru.com%25253Fs_kwcid%25253DSubaru%252520Website%252526k_clickid%25253D_kenshoo_clickid_%252526prid%25253D87%252526k_affcode%25253D77355/RK=0/RS=K.4Mcnj06RuJvqbtFjEshZhDDzk-?p=subaru+website) | | | |
| p. 9  p. 9  p. 9 | A **want** is a desire for a particular product we use to satisfy a need in specific ways that are influenced culturally and socially.  A product delivers a **benefit** when it satisfies a need or want. For marketers to be successful, they must develop products that provide one or more benefits that are important to consumers.  When you couple desire with the buying power or resources to satisfy a want, the result is **demand**.  A **market** consists of all the consumers who share a common need that can be satisfied by a specific product and who have the resources, willingness, and authority to make the purchase.  A *marketplace* used to be a location where buying and selling occurs face to face. In today’s “wired” world, however, buyers and sellers might not even see each other. The modern **marketplace** may take the form of a glitzy shopping mall, a mail-order catalog, a television-shopping network, an eBay auction, or an e-commerce website. **Virtual goods** exist only on a computer server.  Marketplaces are evolving. Consumers, especially younger ones, would rather rent than purchase. **Rentrepreneurs** make money by renting out their stuff when they aren’t using it—offering everything from barbecue grills and power tools to Halloween costumes. . Some analysts refer to this mushrooming trend as **collaborative consumption.** |  | |
| **Website:** Visit White Castle’s website. What ‘benefit’ are they touting? Would you classify it as a ‘want’ or a ‘need’? <http://www.whitecastle.com/>  Discussion question: What are your favorite marketplaces in which to shop and why? | | | |
| p. 10 | **2.2** **Marketing Creates Utility**  Marketing transactions create <keyterm id="ch01term0012" linkend="gloss01\_0012" preference="0" role="strong">**utility**</keyterm><link linkend="ch1mn1\_0013" preference="1"/>, which refers to the sum of the benefits we receive when we use a good or service.  Marketing processes create several different kinds of utility to provide value to consumers:   * *Form utility* is the benefit marketing provides by transforming raw materials into finished products. * *Place utility* is the benefit marketing provides by making products available where customers want them. * *Time utility* is the benefit marketing provides by storing products until they are needed. * *Possession utility* is the benefit marketing provides by allowing the consumer to own, use, and enjoy the product. | Exhibit 1. Rent the Runway | |
| p. 10  p. 10 | **2.3** **Value for Clients and Partners**  Marketing meets the needs of diverse stakeholders. The term **stakeholders** here refers to buyers, sellers, investors in a company, community residents, and even citizens of the nations where goods and services are made or sold—in other words, any person or organization that has a “stake” in the outcome. Thus, marketing is about satisfying everyone involved in the marketing process.  **2.4 Value for Society at Large**  Is it possible to contribute to society and the earth and contribute to your paycheck? Target, one the largest retailers, announced that two of its top priorities are environmental sustainability and responsible sourcing. |  | |
| p. 11  p. 11 | **3. When did Marketing Begin? The Evolution of a Concept**  **3.1 The Production Era**  A **production orientation** works best in a seller’s market when demand is greater than supply because it focuses on the most efficient ways to produce and distribute products. Essentially, consumers have to take whatever is available. Under these conditions, marketing plays a relatively insignificant role—the goods literally sell themselves because people have no other choices. Firms that focus on a production orientation tend to view the market as a homogeneous group that will be satisfied with the basic function of a product. | Table 1. Highlights of Marketing History | |
| p. 11 | **3.2 The Sales Era**  When product availability exceeds demand in a buyer’s market, businesses may engage in the “hard sell” in which salespeople aggressively push their wares. **Selling orientation** means that management views marketing as a sales function, or a way to move products out of warehouses so that inventories do not pile up. The selling orientation gained in popularity after World War II. The selling orientation prevailed well into the 1950s. However, consumers as a rule do not like to be pushed, and the hard sell gave marketing a bad image. Companies that still follow a selling orientation tend to be more successful at making one-time sales rather than at building repeat business. We are most likely to find this focus among companies that sell *unsought goods*—products that people do not tend to buy without some prodding. |  | |
| Discussion question: Do you mind when someone tries to “hard sell” you on a product? How do you usually react to “hard sell” salesperson? | | | |
| p. 13 | **3.3 The Relationship Era**  A **consumer orientation** satisfies customers’ needs and wants. With inflation and recession in the past, firms had to do more than meet consumers’ needs—they had to do this better than the competition and do it repeatedly. They increasingly concentrated on improving the quality of their products. By the early 1990s, many in the marketing community followed an approach termed **Total Quality Management (TQM)**. The TQM perspective takes many forms. Essentially, TQM is a management philosophy that involves all employees from the assembly line onward in continuous product quality improvement.  Technology is creating a new class of businessperson that we call an **instapreneur**. All you need is a design; even amateurs can produce jewelry, T-shirts, furniture, and indeed almost anything we can imagine. They do not have to pay to store their inventory in huge warehouses and they do not need any money down. | Exhibit 1. Warby Parker | |
| p. 13  p. 14  p. 15 | **3.4 The Triple Bottom Line: Make Money and a**  **Contribution**  **A triple bottom-line orientation** means building long-term bonds with customers rather than merely selling them stuff today. This new way of looking at business emphasizes the need to maximize three components:   * The financial bottom line: Financial profits to stakeholders * The social bottom line: Contributing to the communities in which the company operates * The environmental bottom line: Creating sustainable business practices that minimize damage to the environment or that even improve it   Another result of this new way of long-term thinking is the **social marketing concept**, which maintains that marketers must satisfy customers’ needs in ways that also benefit society while still delivering a profit to the firm.  An important trend now is for companies to think of ways to design and manufacture products with a focus on **sustainability**, which we define as “meeting present needs without compromising the ability of future generations to meet their needs.” Sustainability applies to many aspects of doing business, including social and economic practices (e.g. humane working conditions and diplomacy to prevent wars that deplete food supplies, atmospheric quality and of course lives). One other crucial pillar of sustainability is the environmental impact of the product. <keyterm id="ch08term29" linkend="gloss08\_029" preference="0" role="strong">**Green marketing**</keyterm>, the development of marketing strategies that support environmental stewardship by creating an environmentally-founded differential benefit in the minds of consumers, is being practiced by most forward-thinking firms today.  In addition to building long-term relationships and focusing on social responsibility, Triple Bottom line firms place a much greater focus on *accountability*—measuring just how much value marketing activities create. This means that marketers at these organizations ask hard questions about the true value of their efforts and their impact on the bottom line. These questions all boil down to the simple acronym of **ROI (return on investment)**. Marketers now realize that if they want to assess just how much value they are creating for the firm, they need to know exactly what they are spending and what the concrete results of their actions are. | Exhibit 1. Solo Bare | |
| Website: Visit Girls Inc. (inspiring all girls to be strong, smart, and bold) for a discussion about the social marketing concept:  [www.girlsinc.org](http://www.girlsinc.org) | | | |
| **►Marketing Moment In-Class Activity**  A company developed a game called JFK Reloaded, which allows the participant to get behind Lee Harvey Oswald’s sniper rife and recreate the assassination. The player, who can most closely replicate the shot, wins the game. How would you assess this product in terms of the social marketing concept? | | | |
| **►Marketing Moment In-Class Activity**  Marketing occurs in non-business organizations under different names. Can you think of other names for “customers” in non-business organizations? Example—hospitals: patients, psychologists: clients, schools: students, non-profits: donors etc. | | | |
| p. 15  p. 16 | **3.5 What’s Next in the Evolution of Marketing?**  Some marketing analysts suggest that the Internet creates a *paradigm shift* for business. An **attention economy** is </emphasis>one in which a company’s success will be measured by its share of mind rather than share of market where companies make money when they attract eyeballs rather than just dollars. Companies must find new and innovative ways to stand out from the crowd and become an integral part of consumers’ lives rather than just being a dry company that makes and sells products.  **Big data** describe the exponential growth of data, both structured and unstructured—amounts of data that are hard or impossible to process using traditional database technique  **Ethical/Sustainable Decisions in the Real World**  Originally marketed as a way for traditional cigarette smokers to kick their smoking habit, e-cigarettes are finding their way into the hands of college students and teens. And yet many of these flavors still contain nicotine (the addictive substance found in traditional cigarettes) and other chemicals | | Ripped From the Headlines:  Ethical/Sustainable Decisions  in the Real World |
| ►**Marketing Moment In-Class Activity**  Should e-cigarettes be marketed like any other widely available product such as milk or music? | | | |
| p. 16  p. 16  p. 17  p. 17  p. 17 | **4. the VALUE OF MARKETING AND THE Marketing of Value**  One way to look at value is to think of it as a ratio of benefits to costs— customers “invest” their time and money to do business with a firm, and they expect benefits in return.  **4.1 Value from the Customer’s Perspective**  The value proposition includes the whole bundle of benefits the firm promises to deliver, not just the benefits of the product itself.  Marketing then communicates these benefits to the customer in the form of a **value proposition**, a marketplace offering that fairly and accurately sums up the value that the customer will realize if he purchases the product. The challenge to the marketer is to create an attractive value proposition. A big part of this challenge is convincing customers that this value proposition is superior to others they might choose from competitors.  **4.2 Value from the Seller’s Perspective**  Value from a seller’s perspective can take many forms such as money, prestige or pride in their competitive advantage.  Smart companies today understand that making money from a single transaction does not provide the kind of value they desire. Instead, their goal is to satisfy the customer repeatedly so that they can build a long-term relationship rather than just having a “one-night stand.” **Brandfests** are events hosted by companies to thank customers for their loyalty.  It is more expensive to attract new customers than it is to retain current ones</emphasis>. Companies that calculate the **lifetime value of a customer** look at how much profit they expect to make from a particular customer, including each purchase she will make from them now and in the future. To calculate lifetime value, companies estimate the amount the person will spend and then subtract what it will cost to maintain this  relationship. | |  |
| p. 18 | **►METRIC MOMENT** How do marketers measure value? Increasingly, they develop **marketing scorecards**that report (often in quantified terms) how the company or brand is actually doing in achieving various goals. We can think of a scorecard as a marketing department’s report card. Throughout this book, we will give you the opportunity to “get your hands dirty” as you calculate ROI using various kinds of scores, or **metrics**.  **Apply the Metrics**  1) Using Table 1.2 as a template, develop a scorecard for customer satisfaction with your marketing class. You will need to develop your own relevant items for satisfaction measurement.  2) Then have the students in your class complete the scorecard now and again in the middle of the semester.  3)Summarize, interpret, and present the results. | | Table 1. 2 An Example of a Customer Service Scorecard |
| p. 17-19 | * 1. **Provide Value Through Competitive Advantage**   How does a firm go about creating a competitive advantage? The first step is to identify what it does really well. A **distinctive competency** is a firm’s capability that is superior to that of its competition.  The second step in developing a competitive advantage is to turn a distinctive competency into a **differential benefit**—one that is important to customers. Differential benefits set products apart from competitors’ products by providing something unique that customers want. Differential benefits provide reasons for customers to pay a premium for a firm’s products and exhibit a strong brand preference.  Effective product benefits must be both different from the competition and from things customers want. A firm that delivers these desired benefits provides value to its customers and other stakeholders. | | Table 1.3 How Some Firms Achieve a Competitive Advantage with a Distinctive Competency |
| p. 18-20  p. 20 | **4.4 Add Value through the Value Chain**  Many different players—both within and outside a firm—need to work together to create and deliver value to customers. The **value chain** is a useful way to appreciate all the players that work together to create value. This term refers to a series of activities involved in designing, producing, marketing, delivering, and supporting any product. In addition to marketing activities, the value chain includes business functions such as human resource management and technology development.  The main activities of value-chain members include the following:   * *Inbound logistics*: Bringing in materials to make the product * *Operations*: Converting the materials into the final product * *Outbound logistics*: Shipping out the final product * *Marketing*: Promoting and selling the final product * *Service*: Meeting the customer’s needs by providing any additional support required   We have organized this book around the sequence of steps necessary to ensure that the appropriate value exchange occurs and that both parties to the transaction are satisfied—making it more likely they will continue to do business in the future.  **4.6 Consumer-Generated Value: From Audience to Community**  One of the most exciting new developments in the marketing world is the evolution of how consumers interact with marketers. **Amafessionals** contribute ideas for the fun and challenge rather than to receive a paycheck so their motivation is to gain *psychic income* rather than financial income. Amafessionals create **consumer-generated content**. | | Figure 1.2 Apple’s value chain.  Figure 1.3 *Process* | Create and Deliver Value |
| p. 21  p. 22 | .**4.7 Consumer Generated Value: Social Networking**  Consumers also create value through **social media**, Internet-based platforms that allow users to create their own content and share it with others who access their sites. On **social** **networking** **platforms**, a user posts a profile on a website and he or she provides and receives links to other members of the network to share input about common interests.  Social networking is an integral part of what many call **Web 2.0**, the new generation of the World Wide Web that incorporates social networking and user interactivity. It categorizes entries according to **folksonomy** rather than “taxonomy.” In other words, sites rely on users rather than pre-established systems to sort contents.  The **“Wisdom of Crowds”** perspective (from a book by that name) argues that under the right circumstances, groups are smarter than the smartest people in them are. If this is true, it implies that large numbers of (non-expert) consumers can predict successful products. . Marketers rely on c**rowdsourcing** when they outsource marketing activities to a large group of people, often through a social networking community.   * 1. **Using Brands that Consumers Trust**   Your smart phone and a little creativity can earn you some awesome prizes—all while helping companies build their brands. A recent study shows that Millennials trust information they find in user-generated content 50 percent more than they do content from traditional media.   * 1. **Open Source Business Models**   **Open source** developers post their programs on a public site and a community of volunteers is free to tinker with it, develop other applications using the code, and then give their changes away free. | |  |
| p. 22  p. 23 | **4.10 Value from Society’s Perspective**  Every company’s activities influence the world around it, in ways both good and bad. We must consider how marketing transactions add or subtract value from society. Companies usually find that stressing ethics and social responsibility also is good business, at least in the long run.  **4.11 The Dark Side of Marketing**  Whether intentionally or not, some marketers do violate their bond of trust with consumers. Despite the best efforts of researchers, government regulators, and concerned industry people, sometimes consumers’ worst enemies are themselves—our desires, choices, and actions often result in negative consequences to ourselves and the society in which we live.  Some dimensions of “the dark side” of consumer behavior include:   * *Terrorism* * *Addictive consumption*: **Consumer addiction** is a physiological or psychological dependency on goods or services. * *Exploited people*: Sometimes people are used or exploited, willingly or not, for commercial gain in the marketplace. **Consumed consumers</emphasis>** are people who themselves become commodities. * *Illegal activities*: The cost of crimes consumers commit against business has been estimated at more than $40 billion per year. * *Shrinkage* Someone steals from a store every five seconds. * *Anticonsumption:* Some types of destructive consumer behavior are **anticonsumption**, when people deliberately deface products. | | The Cutting Edge:  Users Build Brands That  Customers Trust |
| **►Marketing Moment In-Class Activity**  Ask students to think of businesses that engage in socially responsible activities. What is the activity and how does it help society?  Discussion question: Do you personally feel that marketing is “evil?” Why or why not? | | | |
| p. 24  p. 25  p. 25 | **5. MARKETING AS A PROCESS**  Our definition of marketing also refers to *processes*. This means that  marketing is not a one-shot operation. When it’s done right, marketing  is a decision process in which marketing managers determine the  strategies that will help the firm meet its long-term objectives and then  execute those strategies using the tools they have at their disposal..  A big part of the marketing process is *market planning*, where we think carefully and strategically about the “big picture” and where our firm and its products fit within it. Firms (or individuals) that engage in marketing planning ask questions like these:   * What product benefits will our customers look for in three to five years? * What capabilities does our firm have that set it apart from the competition? * What additional customer groups might provide important market segments for us in the future? * How will changes in technology affect our production process, our communication strategy, and our distribution strategy? * What changes in social and cultural values are occurring now that will affect our market in the next few years? * How will customers’ awareness of environmental issues affect their attitudes toward our manufacturing facilities? * What legal and regulatory issues may affect our business in both domestic and global markets?   Answers to these and other questions provide the foundation for developing an organization’s **marketing plan**. This document describes the marketing environment, outlines the marketing objectives and strategy, and identifies who will be responsible for carrying out each part of the marketing strategy.  Some firms choose to reach as many customers as possible so they offer their goods or services to a **mass market** that consists of all possible customers in a market regardless of the differences in their specific needs and wants.  Although this approach can be cost-effective, the firm risks losing potential customers to competitors whose marketing plans instead try to meet the needs of specific groups within the market. A **market segment** is a distinct group of customers within a larger market who are similar to one another in some way and whose needs differ from other customers in the larger market. Depending on its goals and resources, a firm may choose to focus on one segment. A **target market** is the segment(s) on which an organization focuses its marketing plan and toward which it directs its marketing efforts. A product’s **market position** is how the target market perceives the product in comparison to competitor’s brands. | |  |

#### IV. END-OF-CHAPTER ANSWER GUIDE

# Chapter Questions and Activities

**▶QUESTIONS: Test Your Knowledge**

* 1. Briefly explain which elements of a marketing mix generate revenue and which generate cost.

Pricing is the source of company profits, and it supports the costs of production, costs of transportation, and the costs of sales promotion. Pricing is vital in that sense, however, most marketers tend to focus on the more interesting aspects of the other 3 P’s.

1-2 List and describe the elements of the marketing mix.

* Product: a good, service, idea, place, person --- whatever is offered for sale in exchange.
* Price: the assignment of value or the amount the consumer must exchange to receive the offering.
* Place: the availability of the product to the customer at the desired time and location.
* Promotion: all of the activities marketers undertake to inform consumers or organizations about their products, and to encourage customers to buy these products.

1-3 Define the terms *consumer goods, services,* and *industrial goods*.

*Consumer goods* are the tangible products that individual consumers purchase for personal or family use. Examples: laundry detergent, food, home computer.

*Services* are intangible products that we pay for and use but never own. Examples: dry cleaning, tax preparation, dermatologist.

*Industrial goods* are bought by organizations for further processing or for use in their business operations. Examples: wood for paper, rubber for tires, steel for cars.

1-4 Explain production orientation and selling orientation. What are their main drawbacks?

The management of the production orientation emphasizes the most efficient ways of production and distribution of goods, whilst the selling orientation focus on ‘hard-selling’ to move products out of warehouses. The production concept viewed customers as homogeneous, and leave people with limited product choices. The selling concept viewed marketing as a limited selling function, with little regards to real needs and wants, giving marketing a negative image.

* 1. Briefly explain how marketing is different for a non-profit organization.

The local council, churches, or the SPCA are not so different in their marketing practices from any other profitable organizations. Their product is the ideas/cause, their price is the bundle of benefits received as a member, their promotion is the attractiveness of the leaders and messages, and their place is the location of the organization, where members come congregate and enjoy the cause/messages/ and services.

* 1. Trace the evolution of the marketing concept.

The marketing concept has gone through a few stages throughout the years. These stages include:

* The Production Era: a production orientation works best in a seller’s market when demand is greater than supply because it focuses on the most efficient ways to produce and distribute products.
* The Sales Era: a selling orientationmeans that management views marketing as a sales function, or a way to move products out of warehouses so that inventories do not pile up.
* The Relationship Era: a consumer orientationthat satisfies customers’ needs and wants.
* The Triple Bottom Line: a triple bottom-line orientation means building long-term bonds with customers rather than merely selling them stuff today. This new way of looking at business emphasizes the need to maximize three components: the financial bottom line, the social bottom line, and the environmental bottom line.
  + Customer relationship management (CRM) involves systematically tracking consumers’ preferences and behaviors over time in order to tailor the value proposition as closely as possible to each individual’s unique wants and needs.
  + The social marketing concept, which maintains that marketers must satisfy customers’ needs in ways that also benefit society while still delivering a profit to the firm.
  + Sustainability is defined, as “meeting present needs without compromising the ability of future generations to meet their needs.
  + Accountability—measuring just how much value marketing activities create (ROI: return on investment).
  1. What are the main phases of a typical marketing plan?

A marketing plan is a document that describes the bigger picture of a firm, its product and their position in the marketing and business environment. The main phases includes the objectives, the analysis of the strengths, weaknesses, opportunities and threats, an outline of strategies, and who will carry out the strategy.

* 1. Describe the Internet and Big Data and how they will change marketing in the future.

Big datadescribe the exponential growth of data, both structured and unstructured—amounts of data that are hard or impossible to process using traditional database technique. Some suggest that Big Data may be as important to business and to society as the Internet. Of Course, it’s not the data itself that is important—it’s the ability to analyze the massive amounts of information for better decision making

* 1. To what does the *lifetime value of the customer* refer, and how is it calculated?

*Lifetime value* refers to the profit made from each customer, including every purchase made from now into the future. To calculate lifetime value, a firm estimates the amount the person will spend and then subtracts what it will cost to maintain the relationship.

* 1. What are the key phases of market planning?

The key sections include: Situation analysis of the marketing environment (strengths, weaknesses, opportunities, threats), outlining the objectives and strategy development, implementing marketing strategy, monitor and control marketing strategies.

* 1. What is involved in market planning?

Firms (or individuals) that engage in marketing planning ask questions like these:

* What product benefits will our customers look for in three to five years?
* What capabilities does our firm have that set it apart from the competition?
* What additional customer groups might provide important market segments for us in the future?
* How will changes in technology affect our production process, our communication strategy, and our distribution strategy?
* What changes in social and cultural values are occurring now that will affect our market in the next few years?
* How will customers’ awareness of environmental issues affect their attitudes toward our manufacturing facilities?
* What legal and regulatory issues may affect our business in both domestic and global markets?

**▶ACTIVITIES: Apply What You’ve Learned**

1-12 ***In Class, 10–25 Minutes for Teams*** Assume that you are a marketing consultant employed by a local art museum. The museum hopes to increase the number of individuals who visit the museum. As a marketing expert, you know that there are issues involving product, price, promotion, and place (distribution) that are important in selling both physical products and intangibles. Next week you have an opportunity to speak to the directors of the museum. What product, price, promotion, and place recommendations would you have for “Marketing a Museum?”

*MyMarketingLab for answers to Assisted Graded Questions.*

1-13 ***In Class, 10–25 Minutes for Teams*** Successful firms have a competitive advantage because they are able to identify distinctive competencies and use these to create differential benefits for their customers. Consider your business school or your university. What distinctive competencies does it have? What differential benefits does it provide for students? What is its competitive advantage? What are your ideas as to how your university could improve its competitive position? Write an outline of your ideas.

Students will probably have a lot of opinions and ideas regarding this question. You might ask them to explain the thought process they went through when enrolling in your school. Was your school the student’s top choice? Why or why not? What could make this school more competitive? Have the students’ opinions changed as they matriculated? Another useful tool to offer students working on this task is to introduce them to the SWOT analysis. In particular, matching up a business school’s strengths to opportunities often leads to insights about competitive advantages in the marketplace.

1-14 ***In Class, 10-25 Minutes for Teams*** As college students living away from home, shopping for grocery may now become a common activity. From your various visits to the local supermarket, consider their value proposition based on the perspective of customers, producers and society. As a role-playing exercise, each group will do a class presentation on the three different perspectives.

As students go visit the local supermarket, they should evaluate the products or services received and report on the value proposition base on their perspectives as customers. Another group could assess the value based on sales or profitability, as compared to other supermarkets. The third group could access the web to analyze the supermarket's social perspectives by searching for an ethical or social responsibility initiatives. The three groups of students should present the three perspectives in class.

1-15 ***For Further Research (Individual)*** Recent reports indicate that companies are falling short on their green marketing initiatives. Find at least one example of a company or not-for-profit group that is bucking this trend and write up a short case study about the various methods the organization is employing to deliver on its green marketing promises.

Students can do Internet research to find a not-for-profit that is delivering on its green marketing promises. Siggi’s Yogurt is a good example.

1-16 ***For Further Research (Groups)*** Today’s marketers recognize that the Internet and Big Data have changed marketing and will continue to change it in the years to come. Your team assignment is to first find examples of how the Internet and Big Data have improved marketing for some for-profit and not-for-profit organizations. Then develop your ideas on how the Internet and Big Data could make contributions to society as a whole in the future. Develop a short presentation for your class.

Groups should explore Websites to find examples of how the Internet and Big Data have improved marketing for some for-profit and not-for-profit organizations

**▶marketing metrics exercise**

The chapter discusses the growing importance of sustainability, and it notes that companies and consumers increasingly consider other costs in addition to financial kinds when they decide what to sell or buy. One of these cost categories is damage to the environment. How can marketers make it easier for shoppers to compute these costs? The answer is more apparent in some product categories than in others. For example, American consumers often are able to compare the power consumption and annual costs of appliances by looking at their EnergyStar™ rating. In other situations, we can assess the *carbon footprint* implications of a product or service; this tells us how much CO2 our purchase will emit into the atmosphere (e.g., if a person flies from New York to London). The average American is responsible for 9.44 tons of CO2 per year!42 A carbon footprint comes from the sum of two parts, the direct, or primary, footprint and the indirect, or secondary, footprint:

• The *primary footprint* is a measure of our direct emissions of CO2 from the burning of fossil fuels, including domestic energy consumption and transportation (e.g., cars and planes).

• The *secondary footprint* is a measure of the indirect CO2 emissions from the whole life cycle of products we use, from their manufacture to their eventual breakdown.43 Although many of us are more aware today that our consumption choices carry unseen costs, there is still a lot of confusion about the best way to communicate the environmental costs of our actions—and in many cases consumers aren’t motivated to take these issues into account unless the costs impact

them directly and in the short term.

**1-17.** As a consumer, what other metrics would you suggest that might reflect benefits of sustainability initiatives that would motivate you to purchase from one provider or the other?

*MyMarketingLab for answers to Assisted Graded Questions.*

**1-18.** Would you buy from a demonstrably more expensive provider just because they exhibited a higher level of commitment to sustainability?

*MyMarketingLab for answers to Assisted Graded Questions.*

**▶CHOICES: WHAT DO YOU THINK?**

* 1. **Critical thinking** Journalists, government officials, and consumers have been highly critical of companies for gathering and storing large amounts of data on consumers (i.e., Big Data). Others argue that such practices are essential for firms to provide high-quality, affordable products that satisfy consumers’ varied needs. What do you think? Should the government regulate such practices? How can such practices hurt consumers? How can these practices help consumers?

In answering this question, the student should be encouraged to examine their life personally and relate marketing to their daily activities and events. Areas that should be mentioned in this discussion are consumer purchases (such as buying food, clothes, supplies at the bookstore, and major purchases such as computers or cars) as well as advertising’s impact on their learning processes (such as learning about new products, how to do things, and contemporary trends. Students should look on the Internet for recent events regarding privacy issues and whether governmental intervention is appropriate.

* 1. **Ethics** Despite best efforts to ensure product safety, products that pose a danger to consumers sometimes reach the marketplace. At what point should marketers release information about a product’s safety to the public? How should marketers be held accountable if their product harms a consumer?

*MyMarketingLab for answers to Assisted Graded Questions.*

1-21 **Critical thinking** The marketing concept focuses on the ability of marketing to satisfy customer needs. As a typical college student, how does marketing satisfy your needs? What areas of your life are affected by marketing? What areas of your life (if any) are not affected by marketing?

In answering this question, the student should be encouraged to examine their life personally and relate marketing to their daily activities and events. Areas that should be mentioned in this discussion are consumer purchases (such as buying food, clothes, supplies at the bookstore, and major purchases such as computers or cars) as well as advertising’s impact on their learning processes (such as learning about new products, how to do things, and contemporary trends). Other areas include interactions with groups (such as the role that reference groups play in their purchase processes and how others might be affected by marketing practice). It is also important to examine career plans and aspirations (because most of these students will be business students, they should understand how to pursue job opportunities and market themselves). There are obviously other areas that students might mention such as the international environment, the environment itself, and the legal environment. Each area mentioned should be examined and justified. Most students will find that there will be few activities they pursue daily that are not touched by marketing. One way to stimulate discussion in this area is to relate your own (the instructor’s) personal daily experiences with marketing.

1-22. **Critical thinking** Ideally, each member of a value chain adds value to a product before someone buys it. Thinking about electronics such as a flat-screen TV, a tablet computer, or a smart phone, what kind of value does the producer add? What about the marketing activities? The bricks-and-mortar retailer? The online retailer?

You might rephrase this question by asking why they purchased the TV in a specific store. Did they receive some type of value beyond the TV? If so, what? Different stores might offer different types of value; ask students to give examples.

Students might also discuss the reason for purchasing. Was the flat-screen the driving force? What did the public relations firm do right to cause you to purchase? Any suggestions for what the public relations firm might do?

What value does the flat-screen deliver? Did your students buy the flat-screen because their friends already own it? Do they really enjoy the music? Does the TV have lasting value?

1-23. **Critical thinking** User-generated commercials seem to be part of a broader trend toward user-generated content of all sorts. Examples include *MySpace, Flickr* (where users post photos and comment on others’ pictures), blogging, and video-sharing sites like *YouTube*. Do you think this is a passing fad or an important trend? How (if at all) should marketers be dealing with these activities?

*MyMarketingLab for answers to Assisted Graded Questions.*

* 1. **Ethics** The American Psychological Association does not yet recognize Internet

addiction as a problem. Should it?

Student answers will vary. You can set up this discussion by surfing the APA Website and typing in addiction terms in the search engine—articles and publications will pop up because of your search. Solicit suggestions for search terms related to addiction from students.

* 1. **Ethics**There are cases of marketing practices that pose detrimental effects on society, such as cigarette smoking, excessive drinking, the ideals of beauty, the acquisition of wealth, and possession of material objects. Are the negative perceptions or the notion of the ‘dark’ side of marketing justifiable? Choose any examples above and present your view in class.

Student answers may vary. Students who smoked or drink may not find it unethical. Moreover, these marketers are actually promoting and satisfying consumers needs and wants. The pursuit of beauty brings forth plenty of business opportunities in show business, movies, fashion, modelling, and so on. Acquisition of wealth and materialism may be thought as one of the main driver for economic growth and is good for the country.

**▶Mini-project: Learn by Doing**

The purpose of this mini-project is to develop an understanding of the importance of marketing to different organizations.

1-26 Working as a team with two or three other students in your class, select an organization in your community that practices marketing. It may be a manufacturer, a service provider, a retailer, a not-for-profit organization—almost any organization will do. Then schedule a visit with someone within the organization who is involved in the marketing activities. Arrange for a short visit in which the person can give your group a tour of the facilities and explain the organization’s marketing activities.

* 1. Divide the following list of topics among your team and ask each person to be responsible for developing a set of questions to ask during the interview to learn about the company’s program:
* What customer segments the company targets
* How it determines needs and wants
* What products it offers, including features, benefits, and goals for customer satisfaction
* What its pricing strategies are, including any discounting policies it has
* What promotional strategies it uses and what these emphasize to position the product(s)
* How it distributes products and whether it has encountered any problems
* How marketing planning is done and who does it
* Whether social responsibility is part of the marketing program and, if so, in what ways
  1. Develop a team report of your findings. In each section of the report, share what you learned that is new or surprising to you compared to what you expected.
  2. Develop a team presentation for your class that summarizes your findings. Conclude your presentation with comments on what your team believes the company was doing that was particularly good and what was not quite so good.

This project will help students understand the difficulty, but yet the necessity, of focusing on a value proposition in an organization. Obviously, some firms do this better than others do. However, all firms must consider what they deliver to the customer and how the customer accepts this proposition. If there is disparity between what the consumer expects, what the consumer perceives or sees, what the organization says it will provide or do, and what is actually received, problems will arise. This basic project will aid the student in understanding the need to obtain information from the marketplace and focus on delivering value to customers.

**V. MARKETING IN ACTION CASE: Real Choices At**

**NESTLÉ**

**Summary of Case**

The average coffee drinker in the United States consumes more coffee per cup than his or her European counterpart. In European markets, Nestlé sells an espresso machine under the family brand name of Nespresso. To attract the American consumer, Nestlé is “supersizing” the brewer as part of its new VertuoLine system. Although Nespresson is being sold in the United States, this is astrategic move is to take advantage of the rapidly increasing growth of the portioned coffee market (the drink ready in the cup). This coffee market is estimated to be roughly $5 billion in the United States. Although U.S. consumers can purchase the Nespresso machine if they want it, the VertuoLine system of machines and capsules is designed to appeal to the different coffee-drinking habits of North Americans. The coffees are characterized by a rich and generous foam called crema. To support the product debut, eight coffee and four espresso blends in specially designed VertuoLine capsules will be introduced along with the brewing system.

The VertuoLine system will retail for $299. This is in comparison to Green Mountain’s $229 Keurig Rivo R500 espresso maker and Starbucks’s Verismo 600 machine that sells for $199. This pricing strategy reflects that Nestlé desires for the Nespresso VertuoLine to be recognized by consumers as a premium product. To reinforce this perception of the product, the system will be sold directly to consumers through a network of Nespresso boutiques and on the Internet at

Euromonitor, a market intelligence firm, reports that single-serve coffee capsules have “exploded” in the U.S. marketplace and that this trend will continue to grow. In addition to Green Mountain’s Keurig and Starbucks’s Verismo, Nestlé faces competition from companies like Cuisinart, Hamilton Beach, and KitchenAid,

**Suggestions for Presentation**

This case could be assigned for various online or in-class discussion activities.

**Online Assignment Suggestions**

Research the companies mentioned such as Green Mountain, Starbuck’s, Keurig and other competitors. What is Nestlés competitive advantage for Nespresso?

Determine how each competitor’s product would be ranked in terms of product, price, place and promotion.

Visit the Nestlé Nespresso Website at [www.nestle-nespresso.com/about-us/our-company](http://www.nestle-nespresso.com/about-us/our-company)

and report on the most recent marketing strategies that are being accomplished.

**In-Class Assignment Suggestions**

In groups or as individuals, discuss the marketing strategy that Nestlé should consider for Nespresso, considering the increased competition.

Divide the class into groups of three to five students and have each group conduct a strengths, weaknesses, opportunities and threats (SWOT) analysis to determine how Nestlé can develop strategies to overcome adverse findings.

Divide the class into two groups to debate the “positive aspects of space travel by citizens” and the “negative aspects of space travel by citizens.”

Discuss how space travel would satisfy a customer need.

**You Make the Call**

1-30. **What is the decision facing Nestlé?**

The success of the Nespresso is not guaranteed. There is a great deal of competition in the marketing for coffee products and the major players have a good record of accomplishment for defending their respective market shares. The original marketing strategy for the Nespresso’s four Ps - product, price, place, and promotion - has been designed to attract as many customers as possible. However, plans do not always achieve the desired goals. There must always be consideration for what may go right as well as what may go wrong.

Students may come up with a number of different decisions that Nestlé might make such as:

* Nestlé needs to determine what marketing mix strategies would be effective for their future success (and what strategies would not be as successful).
* Students may be encouraged to factor in extensive marketing research designs in their answers.
* New ideas for marketing mix strategies.
  1. **What factors are important in understanding this decision situation?**

The following factors are important in understanding this decision situation:

* Nestlé’s marketing strategy of product, price, place, and promotion needs to be superior to its rivals to ensure the success of the VertuoLine.
* The coffee market is estimated to be roughly $5 billion in the United States.
* In this spirited market, innovation is necessary for companies to attain and hold market share.
* Competitors in this marketplace include successful firms, such as, Keurig, Starbuck’s., Green Mountain, Cuisinart, and Hamilton Beach.
* Innovation must be accompanied with value in the minds of consumers.
* Nestlé’s pricing strategy reflects the desire for the Nespresso VertuoLine to be recognized by consumers as a premium product.

* 1. **What are the alternatives?**

Students might recommend a variety of different marketing strategies and/or revisions to current marketing strategies discussed in the case. Some possibilities are:

* Develop an aggressive promotion plan.
* Reduce pricing.
* Develop a competitive advantage.
* Monitor and understand how the competitors are potentially gaining power and influence.
* Monitor on a continual basis the market position and pricing in relationship to competition.
* Nestlé must show the benefit to consumers that will satisfy that need or want.
* Marketers must develop the product with the benefits of the customers in mind.
* Articulate why Nestlé’s Nespresso is the choice to make for coffee..

1-33 **What decision(s) do you recommend?**

Students may focus on several of the alternatives developed. They should be encouraged to

discuss which alternative actions are more critical.

1-34 **What are some ways to implement your recommendations?**

Students may make a variety of suggestions for implementation depending on their recommendations. These may include specific promotional activities, specific pricing, research activities and many others.

**WEB RESOURCES**

Ron Jon (Real People, Real Choices, Decision Time vignette): [www.pandora.com](http://www.pandora.com)

Craigslist (online classifieds Website): [www.craigslist.org](http://www.craigslist.org)

The Sims (online virtual community): [www.thesims.com/](http://www.thesims.com/)

Second Life (a 3-D virtual world created by its residents): [www.secondlife.com](http://www.secondlife.com)

The SmartWay brand (identifies products and services that reduce transportation-related emissions): [www.epa.gov](http://www.epa.gov)

Avon Foundation (to improve the lives of women globally): [www.avoncompany.com](http://www.avoncompany.com)

Girls Inc. (inspiring all girls to be strong, smart, and bold): [**www**.**girlsinc**.**org**](http://www.girlsinc.org)

Blogger.com (a small team in Google focusing on helping people have their own voice on the web and organizing the world's information from the personal perspective): [www.blogger.com](http://www.blogger.com)

Subaru: [www.subaru.com](http://www.subaru.com)

LinkedIn (professional network online community): [www.linkedin.com](http://www.linkedin.com)

Ad Roll (lets publishers "connect" through a social network-style matching system to "roll-up" their ad space into highly targeted packages that advertisers can buy across): [www.adroll.com](http://www.adroll.com)

Wikipedia (a multilingual, Web-based, free content encyclopedia): [www.wikipedia.org](http://www.wikipedia.org)

Amazon (online shopping portal): [www.amazon.com](http://www.amazon.com)

Google (online search engine): [www.google.com](http://www.google.com)

YouTube (allows people to easily upload and share video clips): [www.youtube.com](http://www.youtube.com)

MediaPost (the media, marketing and advertising professional's resource for complete news coverage, engaging events, a focused social network, and comprehensive industry jobs, directories and research): [www.mediapost.com](http://www.mediapost.com)