

grewal-levy
marketing
fourth edition





Marketing

Marketing is the activity, set of institutions, and processes for creating, *capturing*, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.

The definition of marketing, established by the American Marketing Association, October 2007.

mhhe.com/grewal4e



Marketing

Fourth Edition

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MARKETING, FOURTH EDITION

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To our families for their never-ending support.

To my wife Diana and my children, Lauren and Alex.

–Dhruv Grewal

To my wife Marcia and daughter Eva.

–Michael Levy

about the authors



Authors Michael Levy (left) and Dhruv Grewal (right).

Dhruv Grewal

Dhruv Grewal Ph.D. (Virginia Tech) is the Toyota Chair in Commerce and Electronic Business and a professor of marketing at Babson College. He was awarded the 2012 Lifetime Achievement Award in Pricing (AMA Retailing & Pricing SIG), the 2010 AMS Cutco/Vector Distinguished Educator Award, the 2010 Lifetime Achievement Award in Retailing (AMA Retailing SIG), and in 2005 the Lifetime Achievement in Behavioral Pricing Award (Fordham University, November 2005). He is a Distinguished Fellow of the Academy of Marketing Science. He was ranked first in the marketing field in terms of publications in the top-six marketing journals during the 1991–1998 period and again for the 2000–2007 period. He has served as VP, research and conferences, American Marketing Association Academic Council (1999–2001), and as VP, development for the Academy of Marketing Science (2000–2002). He was co-editor of *Journal of Retailing* from 2001 to 2007. He co-chaired the 1993 Academy of Marketing Science Conference, the 1998 Winter American Marketing Association Conference, the 2001 AMA doctoral consortium, and the American Marketing Association 2006 Summer Educators Conference.

He has published over 100 articles in journals such as the *Journal of Retailing*, *Journal of Marketing*, *Journal of Consumer Research*, *Journal of Marketing Research*, and *Journal of the Academy of Marketing Science*, as well as other journals. He currently serves on numerous editorial review boards, such as the *Journal of Retailing*, *Journal of Marketing*, *Journal of the Academy of Marketing Science*, *Journal of Interactive Marketing*, *Journal of Business Research*, and *Journal of Public Policy & Marketing*.

He has won a number of awards for his teaching: 2005 Sherwin-Williams Distinguished Teaching Award, Society for Marketing Advances; 2003 American Marketing Association Award for Innovative Excellence in Marketing Education; 1999 Academy of Marketing Science Great Teachers in Marketing Award; Executive MBA Teaching Excellence Award (1998); School of Business Teaching Excellence Awards (1993, 1999);

and Virginia Tech Certificate of Recognition for Outstanding Teaching (1989).

He has taught executive seminars and courses and worked on research projects with numerous firms, such as ExxonMobil, Dell, IRI, TJX, Radio Shack, Telcordia, Khimetrics, Profit-Logic, Monsanto, McKinsey, Ericsson, Council of Insurance Agents & Brokers (CIAB), Met-Life, AT&T, Motorola, Nextel, FP&L, Lucent, Sabre, Goodyear Tire & Rubber Company, Sherwin Williams, Esso International, Asahi, and numerous law firms. He has taught seminars in the United States, Europe, and Asia.

Michael Levy

Michael Levy Ph.D. (Ohio State University) is the Charles Clarke Reynolds Professor of Marketing and director of the Retail Supply Chain Institute at Babson College. He received his Ph.D. in business administration from The Ohio State University and his undergraduate and M.S. degrees in business administration from the University of Colorado at Boulder. He taught at Southern Methodist University before joining the faculty as professor and chair of the marketing department at the University of Miami.

Professor Levy was recognized for 25 years of dedicated service to the editorial review board of the *Journal of Retailing* in 2011. He won the McGraw-Hill Corporate Achievement Award for Grewal-Levy *Marketing 2e* with *Connect* in the category of excellence in content and analytics (2010), Revision of the Year for *Marketing 2e* (Grewal/Levy) from McGraw-Hill/Irwin (2010), the Babson Faculty Scholarship Award (2009), and the Distinguished Service Award, *Journal of Retailing* (2009) (at winter AMA). He was rated as one of the best researchers in marketing in a survey published in *Marketing Educator* (Summer 1997). He has developed a strong stream of research in retailing, business logistics, financial retailing strategy, pricing, and sales management. He has published over 50 articles in leading marketing and logistics journals, including the *Journal of Retailing*, *Journal of Marketing*, *Journal of the Academy of Marketing Science*, and *Journal of Marketing Research*. He currently serves on the editorial review boards of the *Journal of Retailing*, *International Journal of Logistics Management*, *International Journal of Logistics and Materials Management*, and *European Business Review*. He is co-author of *Retailing Management*, 8e (2012), the best-selling college-level retailing text in the world. Professor Levy was co-editor of the *Journal of Retailing* from 2001 to 2007. He co-chaired the 1993 Academy of Marketing Science conference and the 2006 summer AMA conference.

Professor Levy has worked in retailing and related disciplines throughout his professional life. Prior to his academic career, he worked for several retailers and a housewares distributor in Colorado. He has performed research projects with many retailers and retail technology firms, including Accenture, Federated Department Stores, Khimetrics (SAP), Mervyn's, Neiman Marcus, ProfitLogic (Oracle), Zale Corporation, and numerous law firms.



Building From Experience

Marketing, Fourth Edition, builds from Dhruv Grewal's and Michael Levy's experiences in the classroom and in the marketplace and interacting with marketing instructors and students. Six essential features that the Fourth Edition is built upon are highlighted below:

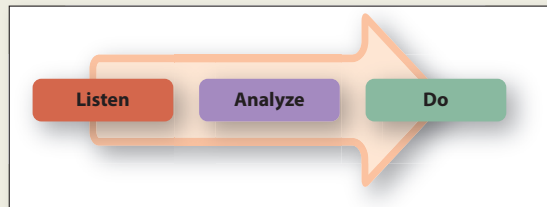
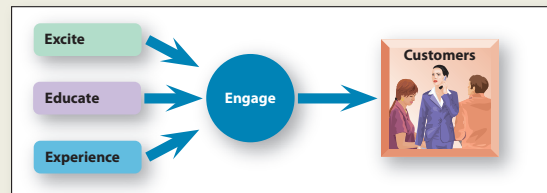
- Learning Orientation:** Each chapter features Learning Objectives at the outset (icons that relate the learning objectives to the chapter content); Check Yourself questions at the end of each section; and a Summing Up review of the learning objectives, Marketing Application questions, and Quiz Yourself questions at the end of the chapter.
- Student Focused:** The text content is engaging and provides illustrations that are highly relevant to students. The content is presented in a visual fashion to facilitate learning.
- State-of-the-Art Instructor's Resources:** The monthly newsletter continues to gain rave reviews. Each newsletter highlights 10–12 current marketing applications and provides appropriate discussion questions and answers and links to interesting ads and videos. Additionally, it provides PowerPoint slides on this content and have also organized the newsletter by chapter for ease of use and archiving purposes. This will enable instructors to deliver state-of-the-art marketing content on a daily basis.
- Applying Concepts:** Comprehensive frameworks that organize key concepts are presented in each chapter. These frameworks integrate essential marketing concepts and content with emerging concepts and content.
- Interactive Technology:** Interactive Toolkits, Interactive Presentations, Applications, and LearnSmart, all based in *Connect* make *Marketing, Fourth Edition* the most comprehensive and usable marketing book (augmented by its ancillaries) in the marketplace.
- Assessment:** To aid in self-assessment of how they are doing, students can use Check Yourself questions at the end of each section, Quiz Yourself questions at chapter end, Practice Quizzes on the book's student Web site, instructor-created quizzes on *Connect*, or the continuous learning and assessment provided by LearnSmart.

New to the Fourth Edition

Some exciting new additions in the Fourth Edition include:

1. New! Chapter 3 covers social and mobile marketing. The chapter starts with a discussion of a recognized leader in the social media space, Dell, and then circles back to discuss Dell in the concluding case study. This new chapter centers on five learning objectives:

- Describe the 4E framework of social media marketing. This new framework explains how excitement, education, experience, and engagement are needed for successful social media marketing.
- Understand the types of social media.
- Understand the types of mobile applications.
- Recognize and understand the three components of a social media strategy: listen, analyze, and do.
- Understand the methods for marketing oneself using social media.



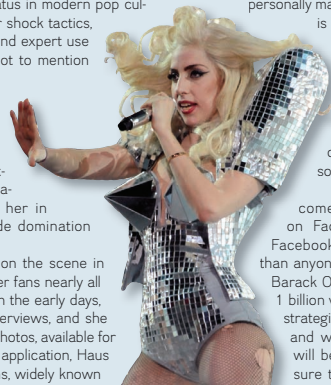
Social and Mobile Marketing 8.1

Lady Gaga Is More Popular than Barack Obama

Lady Gaga's nearly unsurpassed status in modern pop culture has arrived as the result of her shock tactics, carefully orchestrated media blitz, and expert use of varied social media channels—not to mention some serious musical talent.

Granted, wearing a dress made of meat and creating music videos that veer close to pornography will get anyone's attention, even through traditional media settings. And indeed, nearly 12,000 traditional media stories mentioned her in 2010.⁵⁵ But Lady Gaga's worldwide domination involves far more.

From the time she first arrived on the scene in 2008, Gaga has been available to her fans nearly all the time, in a vast array of forums. In the early days, she was constantly available for interviews, and she made content, including videos and photos, available for music bloggers to post. Her iPhone application, Haus of Gaga, acts as a portal for her fans, widely known as "Little Monsters," to stay easily connected through exclusive content, videos, news, and chats. She



Lady Gaga can mix fashion with her music and get away with it.

personally manages her daily posts, even when she is backstage at a concert. Gaga keeps her fans interested by speaking to them directly via social media. Her Facebook page is managed by her with the help of others, and she handles her Twitter account on her own. This authentic one-to-one contact has strengthened her personal connection with her fans.⁵⁶

Through these efforts, she has become the most popular living thing on Facebook, with more than 35 million Facebook fans; has more Twitter followers than anyone else, at 10 million, even more than Barack Obama; and has prompted more than 1 billion views on her YouTube channel. She is strategic in her decisions on what she wears and what she does, knowing that people will be talking about it later. Gaga makes sure that she feeds her fans the content she wants them to talk about—namely, just what unexpected thing she has done most recently.

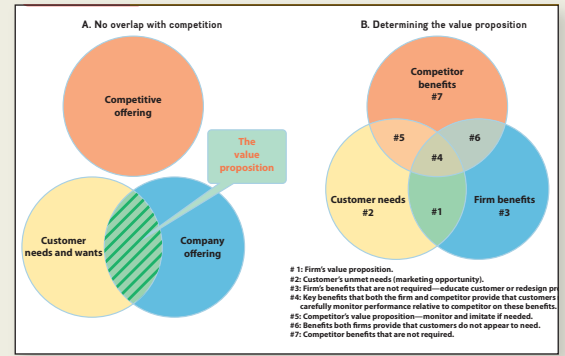
2. Considering the importance of social and mobile marketing, each chapter includes a relevant box or related material beyond the information included in the new chapter.

3. The book highlights the American Marketing Association's definition of marketing: "Marketing is the activity, set of institutions, and processes for creating, capturing, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large." The strategic thrust of this definition of marketing—as value creation—

permeates the book, from the frozen yogurt on the cover all the way to the final summary at the end. For example, Chapter 1 centers on one of the most popular activities for a hot summer day: eating frozen desserts. The chapter opener talks about how a number of food chains, including Red Mango, an increasingly popular frozen yogurt destination, have created value for their customers. A new video describes how Red Mango creates value. Finally, the chapter concludes with a new case study highlighting the wars between Pinkberry and Red Mango, to remind students of the links with the chapter opener and the cover concept.

4. Further emphasizing the importance of value, each chapter of this text includes at least one Adding Value box that highlights how a particular firm has added value for its customers. Many of these boxes are new to this edition.

- Substantive changes to Chapter 8, Segmentation, Targeting, and Positioning, ensure that students can understand exactly how firms create their value proposition; the chapter also provides a step-by-step description of perceptual maps.
- In a streamlined Chapter 4, all ethical dilemma vignettes have been moved to an appendix to improve the readability of the chapter. This edition continues to emphasize the importance of ethics and societal issues with Ethical and Societal Dilemma boxes included throughout the text.
- Each chapter offers key learning objectives at the start; learning objective numbered icons then appear adjacent to the appropriate material in the chapter. The same objectives also are reviewed at the end of each chapter and link the material to the online connect and learning tools on *Connect Marketing*, such as various toolkits and LearnSmart. These online tools greatly facilitate student learning.
- As the U.S. economy continues to move toward a service economy, this text adapts accordingly, by offering additional service examples woven throughout the text. Many examples are highlighted as Superior Service boxes in each chapter. In addition, the text offers a complete chapter devoted to services (Chapter 13).
- All chapter-opener examples are new. The illustrations have been carefully chosen to resonate with college students and increase their engagement with marketing content. The end-of-chapter case studies are either new or have been updated. For example, the Chapter 5 case pertains to Seventh Generation's environmentally friendly cleaning products and its long-term goals in the marketing environment.



Superior Service 13.1 Priming the Pump to Let Loyalty Flow³⁹

When Amazon first introduced its Prime service, its goal was to build customer loyalty. For \$79 per year, membership guaranteed unlimited two-day shipping on all products purchased on the site. The innovation was an immediate success. Millions of Amazon's customers signed up, and they were less likely to purchase from anywhere else.

The program played directly on their consumer psychology. Customers realize that they earn more from the program when they use it more, at no extra cost to them. For example, 10 products purchased on Amazon with two-day shipping likely pay for the \$79 membership. If they go on to buy 100 or 1000 products, still for just \$79, customers feel like they have put one over on the company. In a sense, they have. Amazon has demonstrated its willingness to lose significant profits to develop its program and build unparalleled customer loyalty.

Over time, Amazon has added many new features to Prime, but the cost remains the same. Estimates suggest that Amazon spends about \$90 annually on Prime customers, at a loss of \$11 per customer. Such spending has dampened Amazon's profits because of increased operating expenses. But Amazon believes it can offset these losses by increasing demand for its products from Prime customers.

The offering has improved dramatically with the introduction of Amazon's Kindle Fire. Specifically, Amazon now offers a book-lending service for Prime customers who own the Kindle Fire, even though some publishers demand that Amazon pay for the digital copies any and every time a customer borrows a book. For example, the books in the popular *Hunger Games* series sell for \$8 wholesale. Amazon plans to buy those titles for Prime customers to borrow. Because analysts estimate that several million Prime customers own a Kindle Fire, the lending service could cost Amazon tens of millions of dollars annually.

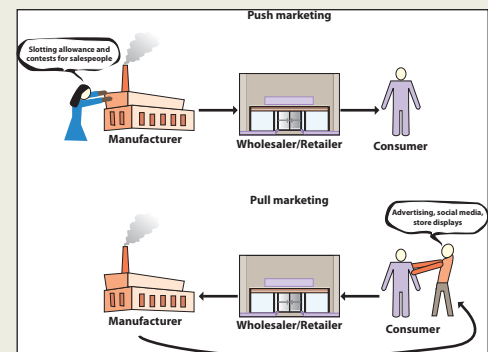
At Amazon.com's Kindle store, Prime customers can borrow books for free.



- Marketing practitioners and scholars have recognized the need to incorporate marketing metrics into their planning processes. A number of marketing metrics (e.g., customer lifetime value, return on investment) are discussed. Some metrics, such as break-even analysis and customer lifetime value, have been combined with related online tools that instructors can use to demonstrate the concepts, and students can then use the tools to practice these concepts.

- In Chapter 16, a new discussion details how a firm's channel and supply chain management drive its success. Additional channel concepts are discussed, including channel conflict and push versus pull strategies. Top franchise operations are highlighted in a new exhibit.

Marketing, Fourth Edition, thus reflects not only the current trends in the marketplace but also the needs of both instructors and students. During the writing and revising of this book, as well as earlier editions, the authors have sought the advice and expertise of hundreds of marketing and educational professionals and have taken their guidance to heart. They are grateful to the hundreds of individuals who participated in the focus groups, surveys, and personal conversations that helped mold this book, and they hope that you enjoy the results.



More Teaching



McGraw-Hill *Connect Marketing*

Less Managing. More Teaching. Greater Learning.

McGraw-Hill *Connect Marketing* is an online assignment and assessment solution that connects students with the tools and resources they need to achieve success.

McGraw-Hill *Connect Marketing* helps prepare students for their future by prompting them to complete homework in preparation for class, master concepts, and review for exams.

Sales Promotion: Getting a Good Deal



Business-to-business sales promotion techniques



Consumer sales promotion techniques

1 of 1

1 - Sales Promotion: Getting a Good

Product Placements

Product placements show products in television shows and movies.



3 of 6

3 - Product Placements

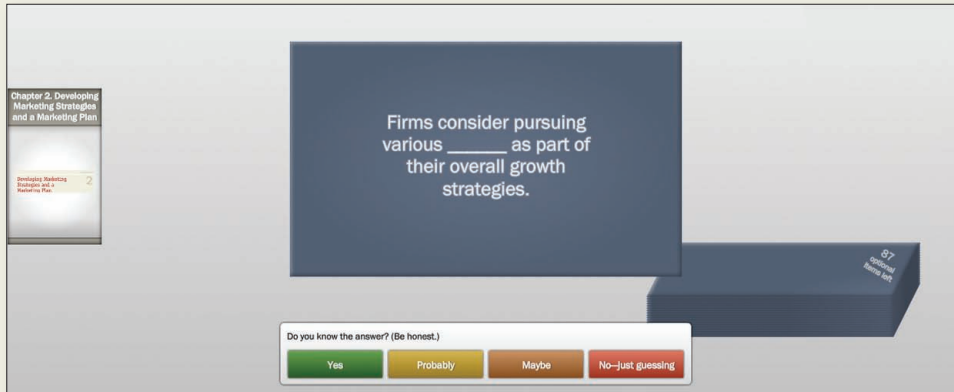
Interactive Presentations

Specific to this textbook, the interactive presentations in *Connect* are engaging, online, professional presentations covering the same learning objectives and concepts directly from the chapters. Interactive presentations teach students the core learning objectives in a multimedia format, bringing the content of the course to life. Instructors can assign this content for a grade, meaning students come to class with better knowledge of chapter material. Interactive presentations are a great prep tool for students—and when students are better prepared, they are more engaged and more participative in class.

Greater Learning

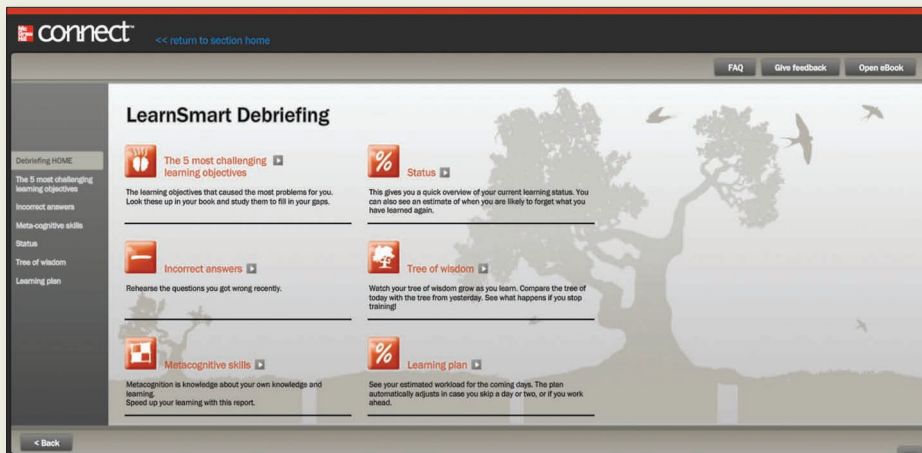
Adapt

McGraw-Hill's LearnSmart is an adaptive learning system designed to help students learn faster, study more efficiently, and retain more knowledge for greater success.



Empower

LearnSmart is the premier learning system designed to effectively assess a student's knowledge of course content through a series of adaptive questions, intelligently pinpointing concepts the student does not understand and mapping out a personalized study plan for success. LearnSmart prepares students, allowing instructors to focus valuable class time on higher-level concepts.



Enable

LearnSmart adaptively assesses students' skill levels to determine which topics students have mastered and which require further practice by way of a personalized learning assessment. It offers at-a-glance views of student strengths and weaknesses and prepares students for upcoming lectures or exams, while providing instructors with comprehensive reports of student performance by individual, topic, or learning objective to help gauge for student learning.

Interactive Learning

Connect Interactive Applications

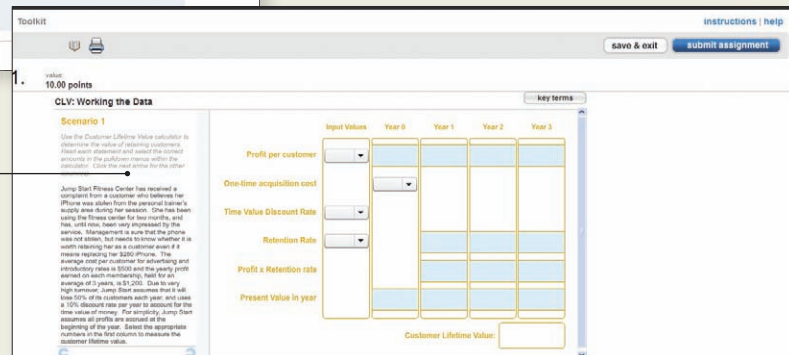
Engaging students beyond simply reading and recall, students practice key concepts by *applying* them with these textbook-specific interactive exercises in every chapter.

Critical thinking makes for a higher level of learning. Each interactive application is designed to reinforce key topics and further increase student understanding. Students walk away from interactive applications with more practice and better understanding than simply reading the chapter. All interactive applications are automatically scored and entered into the instructor gradebook.



Video cases give students the opportunity to watch case videos and answer questions as they go.

Interactive toolkits encourage students to spend additional time focusing on more challenging concepts. These hands-on exercises were designed to offer students the opportunity to practice their skills by working through exercises.



Decision generators require students to make real business decisions based on specific real world scenarios and cases.

Self-assessments allow students to evaluate skills and assess personal progress.

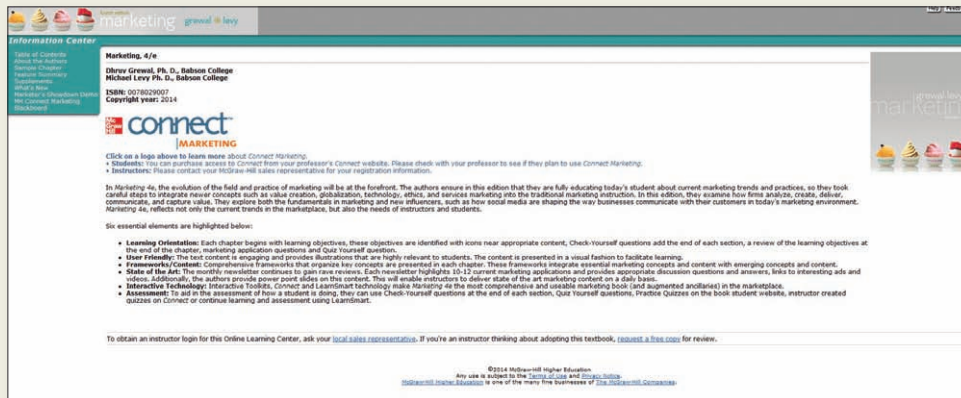
Case analyses encourage students to read through a case, choose the best answer, and determine if they agree with the strategy that is generated based on their choices. This exercise allows students to demonstrate analytical and critical-thinking skills.

Applying Concepts

Online Learning Center (www.mhhe.com/grewal4e)

The Online Learning Center helps students use *Marketing*, fourth edition, effectively.

Some features on the website are:



- **Self-quizzes** – quizzes focusing on key concepts and providing immediate feedback offer students the opportunity to determine their level of understanding.
- **Marketer's Showdown** – nine cases focusing on up-to-the-minute issues in the music, automotive, and soft drink industries. These cases are designed to allow students to analyze the marketing problem, choose a proposed solution, and then watch their proposal debated by marketing professionals. After the debate, students have the opportunity to change their plan or stick to their guns, then see the outcome of their decisions.



Student-Focused Features



CHAPTER 13

Services: The Intangible Product

Even when online retailers offer great merchandise, the customer service they offer can be a deciding factor in their success. How well personnel respond to the stream of customer inquiries may determine whether the company thrives or takes a nose dive. But relating to customers also can be highly variable; it depends on individual employees. How do you mobilize an entire company to speak with one voice? How can a service firm ensure that employee–customer interactions consistently meet, or exceed, the company’s service standards?

Zappos, the Las Vegas–based online clothing and shoe retailer, seems to have the answers to these questions. Valued at more than \$1.6 billion, one year after its acquisition by Amazon! Zappos may sell apparel, but it really has built its business on its superb service. The company’s core values stress that customer satisfaction is more important than cost cutting; that message permeates every single aspect of its operations. The goal is to “wow” each customer with service that far exceeds expectations.

Of course, costs are something that every company must address. Therefore, Zappos.com uses automated

technology to handle approximately 75 percent of its customer service transactions. But the other 25 percent of calls that go to a human respondent constitute powerful and influential customer service interactions, because those human representatives are determined to make the interaction a happy one.⁹

LEARNING OBJECTIVES

- LO1 Describe how the marketing of services differs from the marketing of products.
- LO2 Discuss the four gaps in the Service Gap Model.
- LO3 Examine the five service quality dimensions.
- LO4 Explain the zone of tolerance.
- LO5 Identify three service recovery strategies.

Instilling such values in every worker begins with the interview process. Applicants undergo separate interviews for experience and fit within the company culture. During training, which lasts up to five weeks, all new employees are required to work in the call center. Anyone who thinks the assignment is beneath them is paid for his or her time and shown the door. Trainees are not given a script or a time limit for calls. Instead, during training and once on the job, workers are urged to creatively solve problems, even if customer satisfaction means doing something a little “weird,” like

buying shoes from a competing retailer for a customer in distress.

That was the solution one worker devised when a woman called, desperate to buy another pair of her favorite Zappos shoes when she discovered, after arriving at her hotel, that she had forgotten to pack them. The

CHAPTER 13

Chapter Opening Vignettes focusing on well-known companies draw students into a discussion about some of the challenges these companies face.

Check Yourself

Questions positioned throughout the chapter after key points allow students to stop and think about what they have learned.

CHECK YOURSELF

1. What are the various components of a marketing strategy?
2. List the four macro strategies that can help a firm develop a sustainable competitive advantage.



THE MARKETING PLAN

Effective marketing doesn’t just happen. Firms like Nike and adidas carefully plan their marketing strategies to react to changes in the environment, the competition, and their customers by creating a marketing plan. A **marketing plan** is a written document composed of an analysis of the current marketing situation, opportuni-

LO2 Describe t a marketin

Real-World Examples are used to illustrate concepts throughout the text. The authors give students the opportunity to think about how concepts are used in their everyday life. This is shown through various boxed elements:

- **Adding Value** – illustrate how companies add value not only in providing products and services, but in making contributions to society.
- **Ethical & Societal Dilemmas** – emphasize the role of marketing in society.
- **Social and Mobile Marketing** – discuss how social media are used in marketing products.
- **Superior Service** – highlight the emerging role of the service industry.

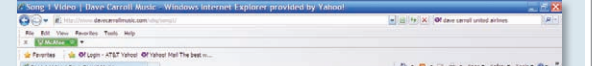
Social and Mobile Marketing 13.2 The 4-Minute and 37-Second Complaint Heard by Millions

Thanks to the Internet, customer service has gone viral. According to an old adage, when customers have a good experience, they tell one person. Those who have a bad experience tell four. But the rise of blogs, Twitter, YouTube, and similar sites has changed the very meaning of word of mouth. Whereas once, to spread word of mouth, a sender had to know the recipient, today millions of people can learn about service problems that strangers experience, all in a matter of hours.

United Airlines learned this lesson the hard way. A member of the band Sons of Maxwell watched from a plane window as baggage handlers tossed luggage with little regard for the value or fragility of the instruments in the cargo.⁴³ Musician Dave Carroll complained immediately to flight attendants, but to no avail. After arriving at his destination, Carroll discovered his \$3,500 acoustic guitar was broken. He made it through his performance using alternative guitars and then, on his return flight a week later, complained again about the damaged instrument. Over the next weeks and months, he contacted the airline repeatedly about the problem while also shelling out \$1200 to get his guitar fixed. When Carroll did finally hear from the airline regarding compensation, he was informed that his claim was denied because he hadn't filed it appropriately.

He responded with a 4-Minute and 37-second complaint in the form of songs and videos posted to the Internet. The first tune, called "United Breaks Guitars," suggests that flying a different airline or driving would have been preferable to flying United. The video scored 5 million hits in a matter of weeks, with more than 11.5 million views to date.⁴⁴ A month later, the band released another song that poked fun at one of United's customer service employees and the airline's policies for handling baggage complaints. The third tune acknowledged United's attempts to improve but also cautioned that customers would switch to other carriers without lasting improvements. Even though bloggers were not uniformly impressed by the music, many offered their own horror stories of United's customer service, creating a maelstrom of bad public relations for the airline.

United responded with an admission of guilt on Twitter, a \$3,000 donation to a musical charity, and an ad campaign indicating it took complaints about luggage handling seriously. The company also saw an opportunity to turn a single customer service problem into a training opportunity. With Carroll's permission, they use the video to improve passenger service worldwide.⁴⁵ But United Airlines still lost \$80 million, or 10 percent of its stock price, due to this incident.⁴⁶



Superior Service 3.1 Social Networks Help Small Businesses Grow

Any small business, especially a new one, comes right up against the bottom line. A skeletal staff and tight budgets may make it tough to take on a new task, like social media management. When it comes to traditional small businesses, like the neighborhood plumber, Facebook or other social network outlets may seem irrelevant. Word of mouth has always worked for referrals, so why change now? Yet some small business owners have found that social networks are an essential tool to reach customers and put their products on the map.

Specializing in luxury watches like Cartier and Rolex that sell for about \$4,000 each, Melrose Jewelers has used social networks to connect with its primary customer base: young, upwardly mobile consumers who are technologically savvy. Its social media activity, including Facebook (with 100,000 likes), a blog, and YouTube, increased sales by 71 percent the first year. One Facebook campaign, a personality quiz that helped customers decide which watch best suited them, attracted \$100,000 in sales. Facebook's customer testimonials also helped build credibility with older customers.²⁵

The owners of Yeti Coolers specialize in building a rugged cooler that defies all the elements outdoors. Once they began using Facebook and YouTube, fishermen, beach-goers, and others responded. With a Facebook page that soon logged 15,000 likes and fans uploading YouTube videos of lakeside fun around the cooler, Yeti Coolers built a community of customers devoted to its product.²⁶

Negri Electronics, a high-end cell phone vendor, uses Google+ for customer communication. Google+ "circles" enable the owner to send specialized messages to each customer group. Google+ also has made Web searching more social, because the +1 feature allows the owner to prioritize web pages for "circle" members. The owner of Mansfield Fine Furniture disagrees, though. After six months in business, he has about a dozen customers who have purchased his pieces, which range in price from \$500 to \$5,000 each. He finds Facebook still yields a more robust customer response, because Google+ is not yet widely used.²⁷

Social networks, with the right management tools, can help a small business grow its customer base. Now, about that plumber, what can social networks do for him or her?



End-of-Chapter Materials include summary sections organized by chapter learning objective, designed to revisit and reinforce key concepts. Key Terms include definitions and page references for the chapter, and a master list of key terms with definitions can be found at the back of the text. Marketing Applications ask students to consider what they have learned in the chapter to answer essay-style questions. Quiz Yourself questions allow students to test their knowledge by answering chapter-specific questions and checking their skill level against the answer key provided in the back of the text. Net Savvy activities encourage students to go to the Web to research and/or write about a particular company or current practices. End-of-chapter cases are designed to help students develop analytical, critical thinking, and technology skills.

Marketing Applications Each chapter concludes with eight to eleven Marketing Applications. These essay-style questions determine whether students have grasped the concepts covered in each chapter by asking them to apply what they have learned to marketing scenarios that are relevant to their lives.

Innovative Instructor Resources



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	# questions	# times submitted	# students submitted	category score
AACSB				
▼ AACSB: Analytic	15	2727	25/25	46.11%
Cumulative Quiz-Chapters 1,2,3 (Graded)	6	450	25/25	14.27%
Homework-Chapter 3 Part 2 (Graded)	6	1512	25/25	63.17%
Homework-Chapter 3 Part 1 (Graded)	3	765	25/25	59.2%
▶ AACSB: Reflective Thinking	26	4995	25/25	39.65%
Bloom's				
▼ Bloom's: Analysis	21	4074	25/25	28.42%
Cumulative Quiz-Chapters 1,2,3 (Graded)	7	525	25/25	13.96%
Homework-Chapter 3 Part 2 (Graded)	7	1764	25/25	41.74%
Homework-Chapter 3 Part 1 (Graded)	7	1785	25/25	24.99%
▶ Bloom's: Application	1	255	25/25	58.43%
▶ Bloom's: Comprehension	7	1239	25/25	58.0%
▶ Bloom's: Knowledge	12	2154	25/25	43.39%

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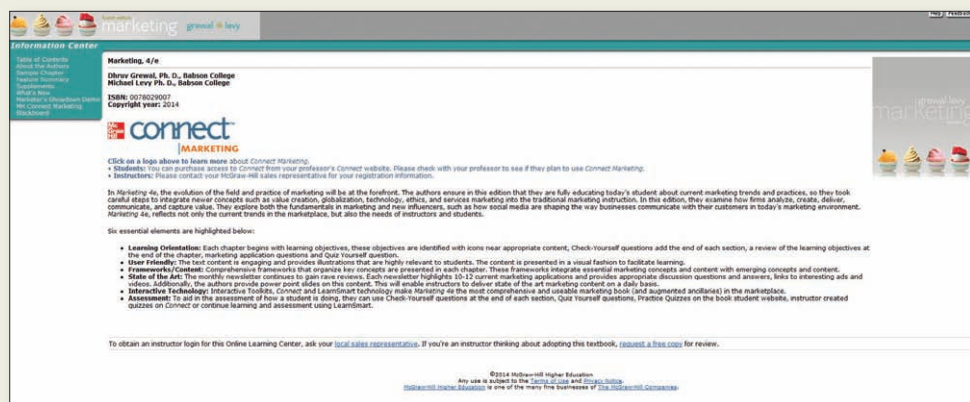


Traditional Instructor Resources

Online Learning Center for Instructors www.mhhe.com/grewal4e

The Online Learning Center offers instructors a one-stop, secure site for essential course materials, allowing instructors to save prep time before class. The instructor's site offers:

- Instructor's Manual
- PowerPoint Presentations
- Test bank/EZ Test
- Newsletters
- Marketer's Showdown



Instructor's Resource CD (IRCD):

This CD contains the Instructor's Manual containing everything an instructor needs to prepare a lecture, including lecture outlines, discussion questions, and links to each chapter's PowerPoint slides, test bank and computerized test bank (including multiple choice, short answer, essay, and application questions), and PowerPoint slides (including exhibits and images from the text as well as additional lecture support materials). The Online Learning Center contains a basic version of the media-enhanced PowerPoint presentations that are found on the IRCD. The media-enhanced version has video and commercials embedded into the presentations and makes for an engaging and interesting classroom lecture.

Video DVD:

A selection of 18 case videos, including 8 brand new videos for this edition, that tie directly to the material covered in the text. Based on feedback received from contact with over 100 instructors, these videos are five to six minutes in length each, instead of the usual 12- to 15-minute videos in many other supplement packages. The shorter videos are much easier for instructors to implement in their courses.

Monthly Newsletter

Each month instructors using *Marketing*, Fourth Edition will receive a newsletter which includes many of the hottest topics in marketing today. Each newsletter contains 8–10 articles, videos, and podcasts on the latest happenings in the marketing discipline, with abstracts and a guide that explains where the information can be implemented in an instructor’s course. The content of the newsletter is also posted at www.grewallevymarketing.com. This web-site provides faculty and students with an opportunity to read the various abstracts, post comments, and search by topic or chapter.



Marketing Plan Pro

Marketing Plan Pro is the most widely used marketing plan software program in the industry, and it includes everything students need to create professional, complete, and accurate marketing plans. Marketing Plan Pro can be packaged with *Marketing*, Fourth Edition for a nominal fee.

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Assurance of Learning Ready



Many educational institutions today are focused on the notion of assurance of learning, an important element of some accreditation standards. *Marketing* is designed specifically to support instructors' assurance of learning initiatives with a simple, yet powerful solution.

Each test bank question for *Marketing* maps to a specific chapter learning outcome/objective listed in the text. Instructors can use our test bank software, EZ Test and EZ Test Online, or *Connect Marketing* to easily query for learning outcomes/objectives that directly relate to the learning objectives for their course. Instructors can then use the reporting features of EZ Test to aggregate student results in similar fashion, making the collection and presentation of assurance of learning data simple and easy.

AACSB Statement

The McGraw-Hill Companies is a proud corporate member of AACSB International. Understanding the importance and value of AACSB accreditation, *Marketing*, Fourth Edition, recognizes the curricula guidelines detailed in the AACSB standards for business accreditation by connecting selected questions in the text and the test bank to the six general knowledge and skill guidelines in the AACSB standards.

The statements contained in *Marketing*, Fourth Edition, are provided only as a guide for the users of this textbook. The AACSB leaves content coverage and assessment within the purview of individual schools, the mission of the school, and the faculty. While *Marketing*, Fourth Edition, and the teaching package make no claim of any specific AACSB qualification or evaluation, we have within *Marketing*, Fourth Edition, labeled selected questions found throughout the supplementary materials according to the six general knowledge and skills areas.

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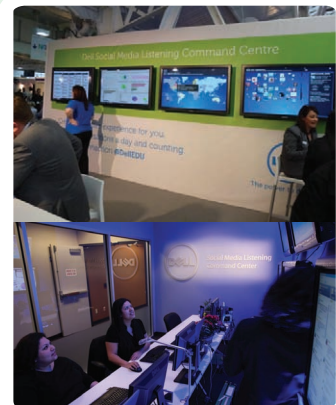
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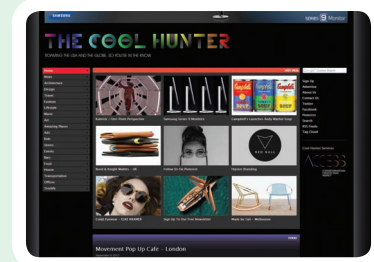
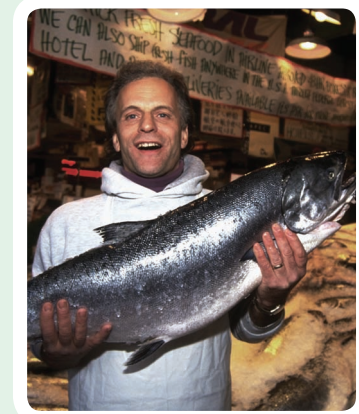
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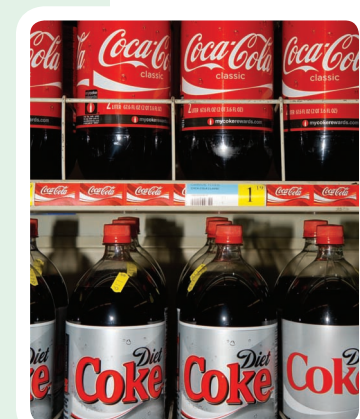
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Marketing



Fourth Edition

Assessing the Marketplace

CHAPTER 1

Overview of Marketing

CHAPTER 2

Developing Marketing Strategies and a Marketing Plan

CHAPTER 3

Social and Mobile Marketing

CHAPTER 4

Marketing Ethics

CHAPTER 5

Analyzing the Marketing Environment

Assessing the Marketplace

Understanding the Marketplace

Targeting the Marketplace

Value Creation

Value Capture

Value Delivery: Designing the Channel and Supply Chain

Value Communication

Section One, Assessing the Marketplace, contains four chapters. Following an introduction to marketing in Chapter 1, Chapter 2 focuses on how a firm develops its marketing strategy and a marketing plan. A central theme of that chapter is how firms can effectively create, capture, deliver, and communicate value to their customers. Chapter 3 is devoted to understanding how one can develop social and mobile marketing strategies. Chapter 4 focuses attention on marketing ethics. An ethical decision framework is developed and presented, and the key ethical concepts are linked back to the marketing plan introduced in Chapter 2. Finally, Chapter 5, Analyzing the Marketing Environment, focuses on how marketers can systematically uncover and evaluate opportunities.



SECTION 1



mango

mang-goh) *noun*

A superfruit,
bursting with antioxidants
& over 20 different vitamins
and minerals. (source: USDA)

**Have you had your
mango today?**

Try our Tropical Mango Smoothie
or all-natural Mango frozen yogurt
with fresh mango topping!



#shoutout to The National Mango Board
for helping us deliver this message!

Overview of Marketing

It's nearing the end of the spring semester, and it's a hot day. Leaving the sweltering classroom, you and your friends decide to go grab a frozen dessert. But now the hard negotiations really begin: ice cream or frozen yogurt? Ben & Jerry's or Red Mango? Someone wants coconut-based instead of milk-based ice cream. Another friend insists it's time for everyone to try gelato. Each of these frozen desserts offers a cool treat, and various companies provide multiple options. So what's the difference among them, and what makes customers loyal to one choice over another?

Let's think about the options available for your frozen dessert indulgence: ice cream, frozen custard, gelato, frozen yogurt, sherbet, sorbet, water ice, single-serving desserts such as popsicles, milkshakes, and blended treats that combine frozen dairy products with bits of cookies or candies.¹ In addition to their wide variety of flavors, they also come in reduced-fat, soy, coconut, organic, fair-trade, probiotic, nutrition-enhanced, and gluten-free versions.

In the grocery store, Unilever and Nestlé/Dreyer's are the undisputed leaders of the frozen dessert market. The former manufactures or distributes Breyer's, Ben & Jerry's, Good Humor, Klondike, and Popsicle;² the

latter is responsible for Häagen-Dazs, Skinny Cow, and Edy's, as well as Dreyer's and Nestlé brands. Frozen yogurt sales are a relatively small, but growing, part of the \$25 billion frozen dessert market. This growth trend has spawned intense competition among existing frozen yogurt shops, as well as inspired new brands to set up shop.

To build and maintain a loyal customer base, each frozen dessert brand must distinguish itself from its competitors by offering products, services, and ambiance that are so appealing that customers shun competitors. Since it opened in 2007, for example, Red Mango has attracted loyal fans devoted to its tart-flavored yogurt, which contains probiotics and thus promises to aid digestion. Stores offer a limited number of exotic flavors, many of which are seasonal, and a wide array of high-end toppings.³ The minimalism in the flavor choices is part of the

company's brand image, as reflected in the stark, bright store layouts. That is, this popular new chain offers consistency across its products and its store images, even as it promises that customers can eat healthy, low-fat, hormone-free milk products, and still indulge in unusual yogurt flavors and interesting toppings.⁴

LEARNING OBJECTIVES

- L01** Define the role of marketing in organizations.
- L02** Describe how marketers create value for a product or service.
- L03** Understand why marketing is important, both within and outside the firm.



Red Mango's tart-flavored yogurt contains probiotics and thus promises to aid digestion. By the way, it tastes great!

In contrast, the more traditional dessert idea offered by TCBY allows consumers to help themselves to yogurt flavors like cake batter, red velvet cake, and peanut butter, and then pile on candy, cookies, fruit, sauces, and sprinkles.⁵ Because the stores calculate the costs of each dessert by weight rather than by serving size, customers feel free to create towering frozen creations that they might have felt awkward ordering. It also results in a higher per-serving cost.⁶

From the moment the Vermont-based Ben & Jerry's opened its doors in 1978, offering super-premium ice cream, sorbet, and frozen yogurt, it committed to operating in a way that would contribute to the quality of life, both locally and globally.⁷ Through the Ben & Jerry Foundation, the company funds community-oriented projects. Its politics are even reflected in its flavor names: In September 2009, "Chubby Hubby" took on a name change to "Hubby Hubby," in honor of Vermont's decision to permit same-sex marriages.

As these examples show, newcomers must constantly try to find a foothold in the market. Already established businesses must grow and change their product offerings and corporate citizenry to keep pace with customer needs and tastes. Red Mango stresses health and style; TCBY gives customers more choices and more control over portions; Ben & Jerry's takes a stand on social issues. Yet what's common to both new and established frozen dessert brands is their traditional approach to marketing: Each company succeeds because it provides good value to its customers.

LO1 Define the role of marketing in organizations.

WHAT IS MARKETING?

Unlike other subjects you may have studied, marketing already is very familiar to you. You start your day by agreeing to do the dishes in exchange for a freshly made cup of coffee. Then you fill up your car with gas. You attend a class that you have chosen and paid for. After class, you pick up lunch (and maybe a frozen dessert) at the cafeteria, which you eat while reading a book on your iPad. Then you leave campus to have your hair cut and take in a movie. On your bus ride back to school, you pass the time by buying a few songs from Apple's iTunes. In each case, you have acted as the buyer and made a decision about whether you should part with your time and/or money to receive a particular service or product. If, after you return home, you decide to sell some clothes you don't wear much anymore on eBay, you have become a seller. And in each of these transactions, you were engaged in marketing.

The American Marketing Association states that "**marketing** is the activity, set of institutions, and processes for creating, *capturing*, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large."⁸ What does this definition really mean? Good marketing is not a random activity; it requires thoughtful planning with an emphasis on the ethical implications of any of those decisions on society in general. Firms develop a **marketing plan**

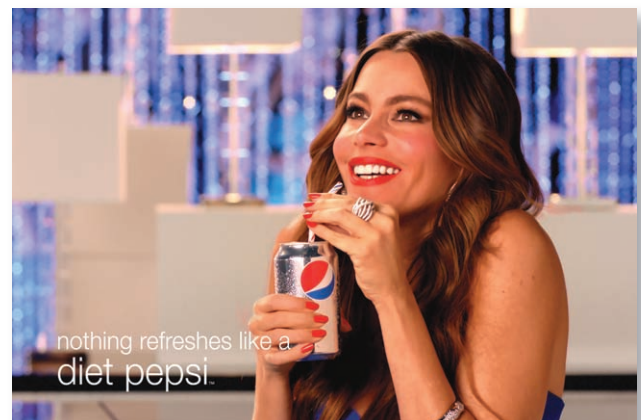
EXHIBIT 1.1 Core Aspects of Marketing

(Chapter 2) that specifies the marketing activities for a specific period of time. The marketing plan also is broken down into various components—how the product or service will be conceived or designed, how much it should cost, where and how it will be promoted, and how it will get to the consumer. In any exchange, the parties to the transaction should be satisfied. In our previous example, you should be satisfied or even delighted with the song you downloaded, and Apple should be satisfied with the amount of money it received from you. Thus, the core aspects of marketing are found in Exhibit 1.1. Let's see how these core aspects look in practice.

Marketing Is about Satisfying Customer Needs and Wants

Understanding the marketplace, and especially consumer needs and wants, is fundamental to marketing success. In the broadest terms, the marketplace refers to the world of trade. More narrowly, however, the marketplace can be segmented or divided into groups of people who are pertinent to an organization for particular reasons. For example, the marketplace for soft drinks may include most people in the world, but as Pepsi and Coke battle each other worldwide, they divide the global population into a host of categories: men versus women, calorie-conscious or not, people who prefer carbonated versus noncarbonated drinks, and multiple categories of flavor preferences, among others.⁹ If you manufacture a beverage with zero

Coke and Pepsi are constantly battling to be number one.





Purchasing a Taylor Swift song from the iTunes store entails an exchange. The customer gets the song, and Apple gets money and information.

calories, you want to know for which marketplace segments your product is most relevant, then make sure that you build a marketing strategy that targets those groups. Certain diet- and health-conscious customers may prefer Diet Coke or Diet Pepsi; others may opt for bottled water products like Dasani or Aquafina.

Although marketers would prefer to sell their products and services to everyone, it is not practical to do so. Because marketing costs money, good marketers carefully seek out potential customers who have both an interest in the product and an ability to buy it. For example, most people need some form of transportation, and many people probably would like to own the new hybrid from Lexus. Starting at more than \$110,000, the Lexus LS 600h L is one of the most sophisticated hybrid cars on the market. But Lexus is not actually interested in everyone who wants an LS 600h L, because not everyone can afford to spend that much on a car. Instead, Lexus defines its viable target market as those consumers who want and can afford such a product.¹⁰ Although not all companies focus on such a specific, and wealthy, target, all marketers are interested in finding the buyers who are most likely to be interested in their offerings.

Marketing Entails an Exchange

Marketing is about an **exchange**—the trade of things of value between the buyer and the seller so that each is better off as a result. As depicted in Exhibit 1.2, sellers provide products or services, then communicate and facilitate the delivery of their offering to consumers.

Buyers complete the exchange by giving money and information to the seller. Suppose you learn about a new Taylor Swift album by hearing one of her songs on XM Satellite radio. The same day, a friend tweets on her Twitter account that she loves the new album, and you visit the Taylor Swift Facebook fan page, which is full of recommendations. From there, you click into the iTunes Store, where you can purchase the song you heard, multiple songs, or the entire new album. You begin with the song you heard, which you continue to love after hearing it several times. Therefore, you go back to iTunes and take advantage of its offer to complete the album by downloading the rest of the songs to your iTunes library. Your billing

EXHIBIT 1.2 Exchange: The Underpinning of Seller–Buyer Relationships

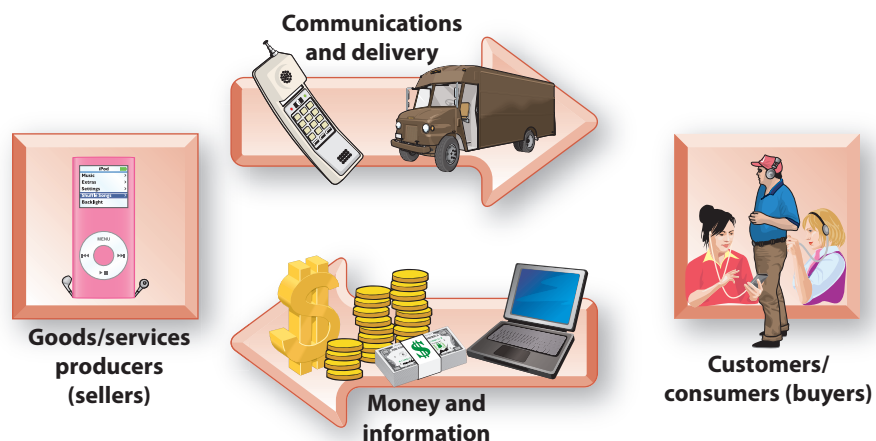
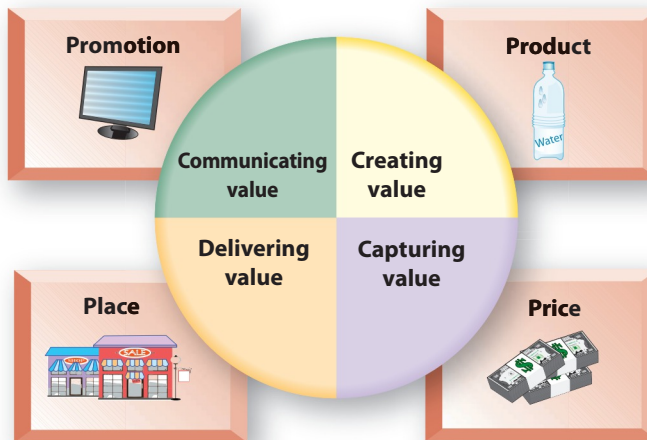


EXHIBIT 1.3 The Marketing Mix



information is already in the company's system, so you do not have to enter your credit card number or other information. Furthermore, iTunes creates a record of your purchase, which it uses, together with your other purchase trends, to create personalized recommendations of other albums or songs that you might like. Thus, Apple uses the valuable information you provide to facilitate future exchanges and solidify its relationship with you.

Marketing Requires Product, Price, Place, and Promotion Decisions

Marketing traditionally has been divided into a set of four interrelated decisions and consequent actions known as the **marketing mix**, or **four Ps**: product, price, place, and promotion (as defined in Exhibit 1.3).¹¹ The four Ps are the controllable set of decisions/activities that the firm uses to respond to the wants of its target markets. But what does each of these activities in the marketing mix entail?

Product: Creating Value Although marketing is a multifaceted function, its fundamental purpose is to create value by developing a variety of offerings, including *goods*, *services*, and *ideas*, to satisfy customer needs.¹² Take, for example, a frozen dessert. Not too long ago, consumers perceived milk-based ice cream as their primary option. But as we recognized in the chapter opener, numerous other options have evolved, including frozen yogurt, coconut-based frozen desserts, sorbets, and even liquid nitrogen–frozen concoctions.¹³ Coconut-based frozen desserts are



Non-dairy options to ice cream are gaining popularity, for example coconut milk frozen desserts and sorbets.



Rafael Nadal adds value to the Nike brand.

extremely popular dessert options for folks with milk allergies; sorbets and sherbets appeal to people who like something lighter to cleanse their palates.

The dessert is a *good*, the *service* might involve your enjoyment of it in a yogurt shop, and there might even be an *idea* driving your experience—that frozen yogurt desserts can be healthy for you too.

Goods are items that you can physically touch. Nike shoes, Pepsi-Cola, Budweiser, Kraft cheese, Tide, an iPad, and countless other products are examples of goods. As we describe at the start of Chapter 2, Nike primarily makes shoes but also adds value to its products by, for example, offering custom designs under its Nike ID brand that increase their fashionable appeal and enlisting popular celebrities such as Rafael Nadal to add their names to the designs.

Unlike goods, **services** are intangible customer benefits that are produced by people or machines and cannot be separated from the producer. When people buy tickets—whether for airline travel, a sporting event, or the theater—they are paying not for the physical ticket stub but of course for the experience they gain. Hotels, insurance agencies, and spas similarly provide services. Getting money from your bank, whether through an ATM or from a teller, is another example of using a service. In this case, cash machines usually add value to the banking experience because they are conveniently located, fast, and easy to use. Many offerings in the market combine goods and services.¹⁴ When you go to an optical center, you get your eyes examined (a service) and purchase new contact lenses (a good). If you enjoy Sting, you can attend a concert that can be provided only at that particular time and place (a service) and that gives you the chance to purchase a Sting concert T-shirt (a good). If you manage to get your shirt signed by Sting himself, you obtain a customized good that puts the finishing touch on and even extends a satisfying service experience.



A Sting concert is a service, but a Sting T-shirt purchased at the concert is a product.



Superior Service 1.1

Skiing Industry Offers Service Enhancements

Black-diamond ski runs are not for everyone. But Breckenridge Ski Resort in Colorado still wants your business no matter what your ski level. Breckenridge has invested heavily in amenities off the slopes. Forty-five percent of its runs are intermediate or beginner trails for the less intrepid skier, and a lavish new 88-unit condo hotel, One Ski Hill Place, caters to all kinds of skiers. Whether you want a studio or a four-bedroom apartment, your unit will include a full kitchen, iPod docs, and laundry machines. Off-slope recreation includes a two-lane bowling alley, two indoor swimming pools, and a private movie theater.

This is today's competitive edge on the slopes. Targeting non-skiers, occasional skiers, and the 4-year-olds who are tomorrow's skiers, the ski resort industry has ramped up with newer and more exciting rounds of value-added service enhancements that have nothing to do with cutting wait times or adding more challenging trails. This trend is focused on life off the slopes, with the emphasis on downtime, away from the runs.¹⁵ Like Breckenridge, other resorts are offering spa facilities, bistros that serve up elk tacos and locally brewed ales, balloon rides, and, for children, hotel scavenger hunts and mountaineering classes. By extending a resort's appeal to new segments of the market, these new services ensure that everyone in the family can find something they want to do—even those who tire after just one or two runs down the bunny slopes.

Vail, one of the nation's largest ski resorts, has transformed itself from a traditional, functional ski town into a little piece of the Alps. Its new Four Seasons Resort resembles a Swiss village, with wooden balconies and peaked roofs. The 121 rooms inside the chalet offer gas fireplaces, DVD players, and free-standing oval tubs. For those returning weary after a day on the slopes, there is sushi service in the lobby, beside a glowing fireplace, or massage therapy in the 13-room on-site spa.

Such amenities offer an added draw for companies and business groups seeking a conference venue. Big cities traditionally offer the facilities that can accommodate large meetings, but now ski resorts are targeting this market too. Those that have undertaken extensive off-slope development can promise a blend of spectacular mountaintop scenery and recreational activities for the conference traveler who wants to relax between meetings.¹⁶



Ski resorts are constantly increasing the amenities offered to their patrons.

One of the most extensive expansions will require congressional action. The Canyons Resort in Utah has proposed development of a two-mile, European-style gondola system that would connect seven Wasatch Mountain ski resorts near Salt Lake City. The resulting valley-to-valley experience could move 1,000 people each hour between the slopes.¹⁷ Four members of Utah's congressional delegation have proposed passage of the Wasatch Range Recreation Access Enhancement Act, which would permit the sale of 30 acres of national forest to develop the "SkiLink" between Canyons Resort and Solitude Mountain Resort.¹⁸ The managing director of this resort calls the project "like nothing else in the U.S." and promises, "It certainly will drive destination visits, and winter tourism."

By offering improved access to more slopes, this project hopes to enhance its service offering in terms of expanding both the product and place. Critics, however, including the Department of Agriculture, cite the environmental risks of such a project to Salt Lake City's watershed and object to what they fear will become an "arms race" among Wasatch area resorts that will compete to become part of the treetop gondola network. In the case of this proposed development, an exciting new product may for its critics simply be in the wrong place.

Although much of their appeal relies on another P—place—ski slopes worldwide also have been striving to provide their customers with a better product, which in this case means more amenities and great customer service, as Superior Service 1.1 relates.

Ideas include concepts, opinions, and philosophies; intellectual concepts such as these also can be marketed. Groups promoting bicycle safety go to schools, give talks, and sponsor bike helmet poster contests for the members of their primary market: children. Then their secondary target market segment, parents and siblings, gets involved through their interactions with the young contest participants. The exchange of value occurs when the children listen to the sponsors' presentation