

FOUNDATIONS OF *M*ARKETING

SIXTH EDITION



Pride/Ferrell

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FOUNDATIONS OF
MARKETING
SIXTH EDITION

WILLIAM M. PRIDE

Texas A & M University

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

To James Collins Ferrell and George Collins Ferrell

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Role-Play Exercises

preface



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THE IMPORTANCE OF MARKETING TO BUSINESS

The importance of marketing strategies in a changing environment is a major challenge facing managers today. Marketing is the only function in business that has a responsibility to increase demand, create revenue, and develop loyal customers necessary for a firm's existence. *Foundations of Marketing* has been designed to provide foundational concepts and best practices necessary to achieve financial performance and maintain positive relationships with key stakeholders. All business students need to understand these important foundational concepts that reflect the real world of marketing. In addition, these concepts help students understand career opportunities in marketing. This text provides comprehensive coverage of important marketing concepts that are necessary for a student's success in business.

Pride & Ferrell *Foundations of Marketing* provides your students with an opportunity to develop respect for the importance of marketing and understand that learning about marketing requires the mastering of essential concepts. We continue to revise our book to reflect major changes in the environment, yet maintain comprehensive coverage of traditional proven concepts necessary for marketing decision making. More recently, we have added a chapter on digital marketing and social networking. This chapter undergoes rigorous revision with each edition to reflect the dynamic changes in this area. In general, the complexity of marketing decision making is being driven by rapid changes in technology that affect how consumers obtain and use information and purchase products. In this revision, we have made a conscious effort to make the book more compact and have reduced the length of the book without sacrificing any important concepts. For example, we have combined two pricing chapters into one complete chapter that includes all of the major pricing concepts important in developing marketing strategy.

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

Specific details of this extensive revision are available in the transition guide in the *Instructor's Manual*. We have also made efforts to improve all teaching ancillaries and student learning tools. PowerPoint presentations continue to be a very popular teaching device, and a special effort has been made to upgrade the PowerPoint program to enhance classroom teaching. The *Instructor's Manual* continues to be a valuable tool updated with engaging in-class activities and projects. The authors and publisher have worked together to provide a comprehensive teaching package and ancillaries that are unsurpassed in the marketplace.

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

WHAT'S NEW TO THIS EDITION?

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

- Foundational content.** Each chapter has been updated with the latest knowledge available related to frameworks, concepts, and academic research. These additions have been seamlessly integrated into the text. Many examples are new and a review of footnotes at the end of the chapters reveals where new content has been added. Many of the new examples and content changes have been updated.
- Online role-play exercises.** The eight new role-play case exercises, available online, highlight key chapter concepts. These exercises involve team participation where students engage in a discussion of the marketing dilemma and provide a solution. The class breaks into teams and reaches decisions that relate to the short term, intermediate term, and long term. Each team member is assigned a role and should take on that role in team decision making. The case dilemmas are disguised but are based on real-world marketing situations. All information, including the background section and the roles, are online. See the *Instructor's Manual* for more guidance on these exercises.

ROLE-PLAY TEAM CASE EXERCISE 1

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

BIRMINGHAM HILL CHEESE COMPANY*

Background

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

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MARKETING INSIGHTS

Chipotle Grill—Where Relationships Matter

Chipotle Mexican Grill seems to do things a bit differently from other fast-food chains. Chipotle spends very little on advertising compared to the competition. Chipotle spends only \$6 million on ad campaigns in a year. Comparatively, Arby's—considered the smallest of the fast-food chains—spends nearly \$100 million. Instead of paid advertising, Chipotle strives to form relationships with customers to encourage positive word of mouth and gather marketing research. For instance, Chipotle offers an invitation-only loyalty program to customers willing to take the time to answer questions about the company's philosophy.

Furthermore, Chipotle's "food with integrity" products use fresh food with ingredients grown naturally and sustainably from local farmers whenever possible, increasing positive relationships with

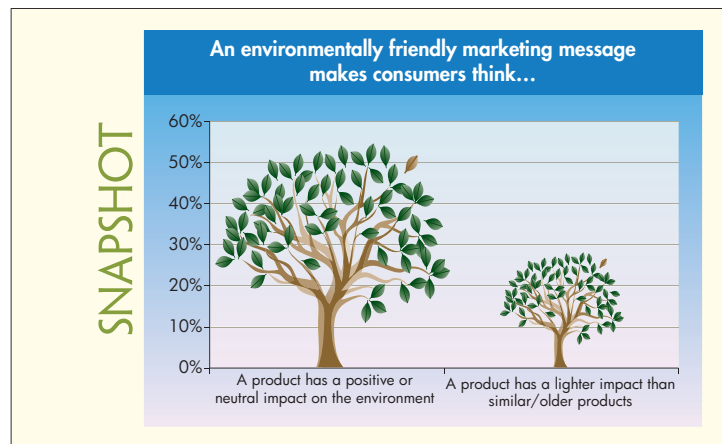
customer satisfaction by ensuring that products are of the best quality. The company also spends a great deal of time investigating ways to improve the taste and quality of its products. For instance, the company's owner had a team of engineers create a new machine that heats tortillas evenly after he couldn't convince his distributor to make one according to acceptable standards.

Advancing technology offers new opportunities for Chipotle Grill to connect with customers—but the restaurant chain is being cautious. While the company is investigating other marketing platforms like iPhone apps and social media tools, it wants to retain human interaction in the Chipotle experience. This is demonstrated in its practices—selecting only the cheeriest of applicants. Chipotle continues to be successful because of its innovative and unique approach

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- Opening vignettes: Marketing Insights.** All of the chapter-opening vignettes are new. They are written to introduce the general content of each chapter by focusing on actual entrepreneurial companies and how they deal with real-world situations.
- Boxed features.** Each chapter includes new or updated boxed features that highlight green marketing, marketing entrepreneurs, emerging trends in marketing, or controversial issues in marketing. The majority of the boxed features are new to this edition; a few have been significantly updated and revised.

- New Snapshot features.** All of the Snapshot features are new and engage students by highlighting interesting, up-to-date statistics that link marketing theory to the real world.
- New research.** Throughout the text we have updated content with the most recent research that supports the frameworks and best practices for marketing.



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Source: 2012 Cone Green Gap Tracker Survey of 1,019 consumers.



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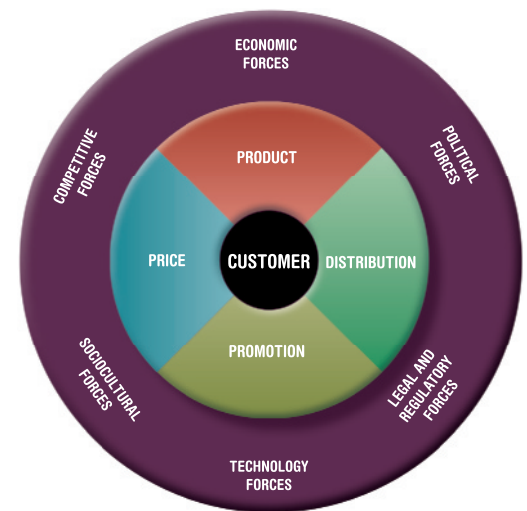
The growth in popularity of e-readers has led to a greater direct distribution of magazines, newspapers, and books.

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

FEATURES OF THE BOOK

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

- An *organizational model* at the beginning of each part provides a “road map” of the text and a visual tool for understanding the connections among various components.
- *Objectives* at the start of each chapter present concrete expectations about what students are to learn as they read the chapter.
- Every chapter begins with an opening vignette. This feature provides an example of the real world of marketing that relates to the topic covered in the chapter. After reading the vignette, the student should be motivated to want to learn more about concepts and strategies that relate to the varying topics. Students will learn about topics such as social media marketing and buzz marketing. Students will also be introduced to such companies as Chipotle Grill, LEGO, Eataly, MillerCoors, and Procter & Gamble.
- **Boxed features**—*Emerging Trends* and *Going Green*—capture dynamic changes in marketing. These changes are influencing marketing strategies and customer behavior. Strong feedback from adopters indicated the need for coverage in these areas.



Emerging Trends

The Demand for Single-Serve Coffee Is Brewing

Starbucks is at it again, taking over the coffee world one mug at a time. In an attempt to diversify itself, Starbucks has begun to pursue efforts to tackle the emerging trend of Verismo single-serve coffee machines. It has set its sights on introducing brewers that enable consumers to make single shots of espresso along with espresso-based drinks and lattes.

One of the ways in which Starbucks promoted the product was by having Starbucks baristas demonstrate how it worked at Williams-Sonoma stores countrywide. The coffee machines are being distributed to specialty home stores as this is a specialty product for Starbucks. The company named the machine Verismo after a style of Italian opera to spark interest among consumers. Direct competition for Verismo includes Kraft Foods Tassimo, Nestle's Nespresso, and Green Mountain's Keurig machines.

The product itself is quite innovative since it is the first single cup machine that can make brewed coffee, espresso, and lattes with fresh milk. The machine is technically not the first venture Starbucks has made into the single-serve coffee market. The company entered with a single-serve instant coffee packet, which was a highly successful product. If the past is an indicator of how Verismo will perform, Starbucks may be adding another profitable venture to its portfolio.⁹

- The *Emerging Trends* boxes cover such marketing phenomena as mobile payments, changing health trends, branded stores, digital billboards, and viral marketing. Featured companies include Applebee's, Panera, Reddit.com, and Starbucks.

Going Green

Google's New Venture: Going Green

Can a multi-billion-dollar corporation really become a zero-carbon operation? According to Google's CEO Larry Page, it is certainly going to try. In 2007, Google established the green initiative RE<C, which stands for renewable energy is cheaper than coal, to reduce the company's carbon footprint. The company is taking proactive steps to reduce carbon emissions from its day-to-day operations. It plans to achieve this goal by investing in solar and wind producers, purchasing carbon offsets, and constructing its data centers more efficiently.

The company has marketed its green efforts as something new, innovative, and ambitious that other companies can potentially emulate. For Google, going green has been an initiative that has proven its commitment toward

social responsibility. The company realizes that it can give back not only technologically but also proactively by essentially eliminating greenhouse gas emissions. Google began these efforts by marketing the benefits of going green to its employees. It provides its employees with energy-efficient modes of transportation and has installed the largest network of electric vehicle charging stations in the United States. Google's green initiatives also enhance its reputation with its target market, as many companies and consumers prefer doing business with sustainable firms. If its carbon-efficient blueprint becomes a successful endeavor, Google may have found an inadvertent way to market social responsibility by just doing the right thing.^d

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- The *Going Green* boxes introduce students to such topics as LED light bulbs, green-washing, green mobile applications, and green public relations campaigns. Featured companies include General Electric, Levi's, IKEA, IBM, Google, and Facebook.

- The *Marketing Debate* feature discusses controversial issues related to marketing, such as online copycats, the ethics of show-rooming, the truthfulness of energy drink claims, and marketing to children through mobile games.

Marketing Debate

Copycats or Innovators?

ISSUE: Is Rocket Internet a hub for innovation or just another copycat?

Copying has been around for years, but has one company taken it too far? Rocket Internet is a German-based company that clones successful U.S Internet-based business models and launches them on an international scale. Rocket Internet has launched numerous duplicated businesses, most famously Citydeal, copied from Groupon. Citydeal was eventually acquired by Groupon.

Critics have discredited Rocket Internet by saying the company is uninspired and lacking in originality. However, company models cannot be patented, and trademarks only apply within the country issued. In a sense, Rocket Internet's approach seems unethical. On the other hand, it could be seen as an innovative way to take a successful business plan and capitalize on it in an untapped market. Technically, Rocket Internet is operating legally.^a

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Entrepreneurship in Marketing

Build-a-Bear Entrepreneur Creates Innovative Way to Enable Children's Creativity

Maxine Clark, CEO of Build-a-Bear Workshops, has always been an entrepreneur at heart. After conquering the retail industry as president of Payless ShoeSource, Clark naturally wondered what was next. One day while shopping, she conceived a business idea that would enable children to take a hands-on approach at using their creativity. The idea would allow children to choose a stuffed bear, stuff it, and even give it a heart. After formulating a business plan and acquiring capital through investors, Clark began to work on opening the first store in the St. Louis Galleria.

The store was a success that enabled room for growth throughout the country and the world. Currently, the company operates in 19 countries and is continually looking for further expansion. The operation grew from bears and clothes to shoes, accessories, and additional options for other animals. The company is consistently focused on their customers and their experiences, which has built a loyal following globally with more than \$390 million in revenue.^e

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- The *Entrepreneurship in Marketing* feature focuses on the role of entrepreneurship and the need for creativity in developing successful marketing strategies by featuring successful entrepreneurial companies like Build-a-Bear Workshop, Kayak.com, Ideeli, Pixability, Drybar, and Tastefully Simple.
- *Key term definitions* appear in the margins to help students build their marketing vocabulary.
- Figures, tables, photographs, advertisements, and Snapshot features increase comprehension and stimulate interest.

- A complete *chapter review* covers the major topics discussed and is organized based upon the chapter objectives.
- The list of key concepts provides another end-of-chapter study aid to expand students' marketing vocabulary.
- *Issues for discussion and review* at the end of each chapter encourage further study and exploration of chapter content.
- The Marketing Applications are designed to facilitate students' comprehension of important topics and to enhance their critical thinking skills. Additional application questions have been included to help students quantify and apply marketing strategies. These questions have been developed based on a higher-level thinking on Bloom's taxonomy. The primary purpose of these questions is to guide students from a basic knowledge of marketing concepts to application, analysis, and synthesis of marketing activities.

- *Developing Your Marketing Plan* ties the chapter concepts into an overall marketing plan that can be created by completing the Interactive Marketing Plan activity found at www.cengagebrain.com. The *Developing Your Marketing Plan* feature allows students to explore each chapter topic in relation to developing and implementing a marketing plan.
- Each chapter has an end-of-chapter Video Case to help students understand the application of chapter concepts. Some examples of companies highlighted in the cases are New Belgium Brewing, L.L.Bean, Starbucks, TOMS Shoes, and AXE.
- *Online Appendices* discuss marketing career opportunities, explore financial analysis in marketing, and present a sample marketing plan. All of these appendices appear online.
- A comprehensive *glossary* defines more than 585 important marketing terms.
- An online *Career Transitions* site provides resources where students can search about marketing careers that meet their career goals and search for suitable internships and full-time positions.



TEXT ORGANIZATION

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

Part 1 Strategic Marketing and Its Environment

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

Part 2 Marketing Research and Target Markets

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

Part 3 Customer Behavior and E-Marketing

We examine consumer buying decision processes and factors that influence buying decisions in **Chapter 6**. In **Chapter 7**, we explore business markets,

business customers, the buying center, and the business buying decision process. **Chapter 8** focuses on the actions, involvement, and strategies of marketers that serve international customers. In **Chapter 9**, we discuss digital marketing, social media, and social networking.

Part 4 Product and Price Decisions

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

Part 5 Distribution Decisions

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

Part 6 Promotion Decisions

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

A COMPREHENSIVE INSTRUCTIONAL RESOURCE PACKAGE

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

Instructor's Manual

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

- Quick Reference Guide
- Purpose Statement
- Integrated Lecture Outline
- Discussion Starter recommendations that encourage active exploration of the in-text examples
- Class Exercises, Semester Project Activities, and Chapter Quizzes

- Suggested Answers to end-of-chapter exercises, cases, and strategic cases
- Guide to teaching Role-Play Team Exercises

Test Bank

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

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

American Marketing Association Professional Certified Marketer®

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

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

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

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

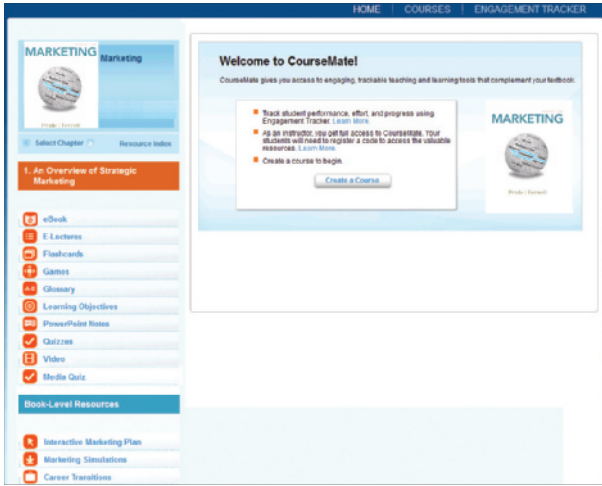
PowerPoint Slides

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



Automatic Vending

- * Use of machines to dispense products
- * Most impersonal form of retailing
- * Accounts for a very small minority of all retail sales
- * Provides efficient and continuous service to consumers in areas of heavy foot traffic



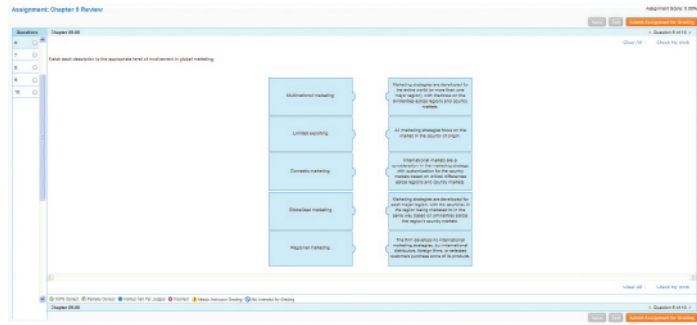
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CourseMate

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

CengageNOW

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



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MindTap

MindTap for *Foundations of Marketing 6e* is a personalized, fully online digital learning platform of authoritative Cengage Learning content, assignments, and services that engages your students with interactivity while also offering you choice in the configuration of coursework and enhancement of the curriculum with complimentary web apps known as MindApps. MindApps range from ReadSpeaker (which reads the text out loud to students), to Kaltura (allowing you to insert inline video and audio into your curriculum) to ConnectYard (allowing you to create digital “yards” through social media—all without “friending” your students). MindTap for *Foundations of Marketing 6e* is well beyond an eBook, a homework solution or digital supplement, a resource center website, a course delivery platform, or a Learning Management System. It is the first in a new category—the Personal Learning Experience.



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Marketing Video Case Series

This series contains videos specifically tied to the video cases found at the end of the book. The videos include

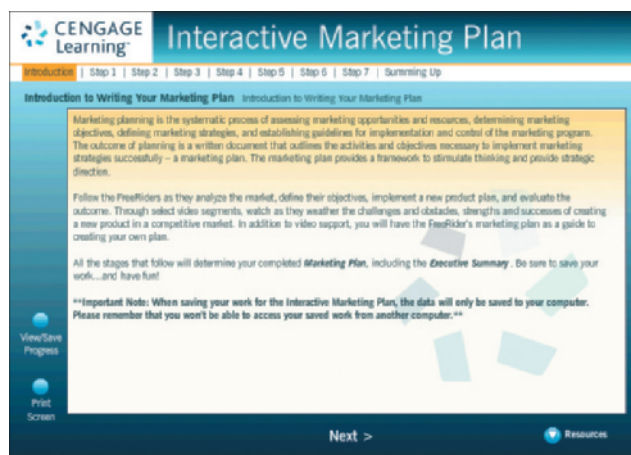
information about exciting companies, such as L.L.Bean, New Belgium Brewing, TOMS Shoes, Starbucks, Dale Carnegie, and Vans.

Author's Website

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

Interactive Marketing Plan

The Marketing Plan Worksheets have been revamped and reproduced within an interactive and multimedia environment. A video program has been developed around the worksheets, allowing students to follow a company through the trials and tribulations of launching a new product. This video helps place the conceptual marketing plan into an applicable light and is supported by a summary of the specific stages of the marketing plan as well as a sample plan based on the events of the video. These elements act as the 1-2-3 punch supporting the student while completing his or her own plan, the last step of the Interactive Marketing Plan. The plan is broken up into three functional sections that can either be completed in one simple project or carried over throughout the semester.



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SUPPLEMENTS TO MEET STUDENT NEEDS

The complete package available with *Foundations of Marketing* includes support materials that facilitate student learning. To access additional course materials, including Marketing CourseMate, please visit www.cengagebrain.com. At the CengageBrain.com home page, search for the ISBN of your textbook (from the back cover of your book) using the search box at the top of the page. This will take you to the product page, where the following interactive teaching and learning tools can be found:

- A full-color e-book—allows you to highlight and search for key terms
- Quizzes
- Flashcards
- Videos
- An Interactive Marketing Plan
- And more!



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YOUR COMMENTS AND SUGGESTIONS ARE VALUED

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

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

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Like most textbooks, this one reflects the ideas of many academicians and practitioners who have contributed to the development of the marketing discipline. We appreciate the opportunity to present their ideas in this book.

A number of individuals have made helpful comments and recommendations in their reviews of this or earlier editions. We appreciate the generous help of these reviewers:

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- Anthony McGann
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- Jack McNiff
*State University of New York College of
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- Lee Meadow
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- Carla Meeske
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O. C. Ferrell



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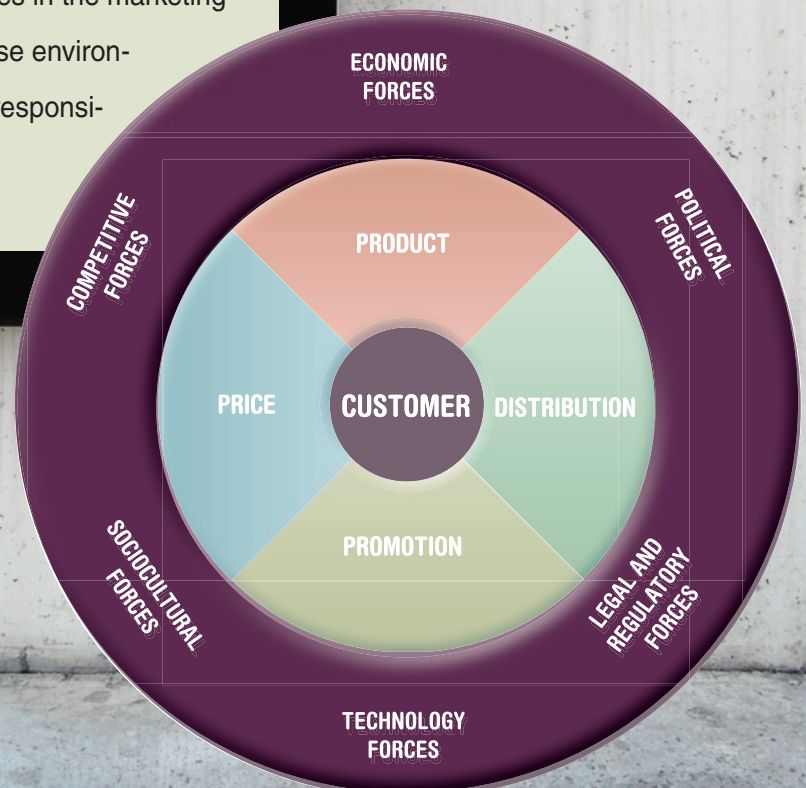
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Strategic Marketing and Its Environment

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

part 1

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



chapter 1

Customer-Driven Strategic Marketing



OBJECTIVES

1. Define *marketing*.
2. Be aware of the marketing concept.
3. Understand the importance of building customer relationships.
4. Understand the role of marketing in our global economy.

MARKETING INSIGHTS

Chipotle Grill—Where Relationships Matter

Chipotle Mexican Grill seems to do things a bit differently from other fast-food chains. Chipotle spends very little on advertising compared to the competition. Chipotle spends only \$6 million on ad campaigns in a year. Comparatively, Arby's—considered the smallest of the fast-food chains—spends nearly \$100 million. Instead of paid advertising, Chipotle strives to form relationships with customers to encourage positive word of mouth and gather marketing research. For instance, Chipotle offers an invitation-only loyalty program to customers willing to take the time to answer questions about the company's philosophy.

Furthermore, Chipotle's "food with integrity" products use fresh food with ingredients grown naturally and sustainably from local farmers whenever possible, increasing positive relationships with local suppliers. Chipotle attempts to create high

customer satisfaction by ensuring that products are of the best quality. The company also spends a great deal of time investigating ways to improve the taste and quality of its products. For instance, the company's owner had a team of engineers create a new machine that heats tortillas evenly after he couldn't convince his distributor to make one according to acceptable standards.

Advancing technology offers new opportunities for Chipotle Grill to connect with customers—but the restaurant chain is being cautious. While the company is investigating other marketing platforms like iPhone apps and social media tools, it wants to retain human interaction in the Chipotle experience. This is demonstrated in its practices—selecting only the cheeriest of applicants. Chipotle continues to be successful because of its innovative and unique approach to marketing and stakeholder relationships.¹

Like all organizations, Chipotle Grill attempts to provide products that customers want, communicate useful information about them to excite interest, price them appropriately, and make them available when and where customers want to buy them. Even if an organization does all these things well, however, competition from marketers of similar products, economic conditions, and other factors can impact the company's success. Such factors influence the decisions that all organizations must make in strategic marketing.

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

DEFINING MARKETING

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

Marketing Focuses on Customers

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

LO1. Define *marketing*.

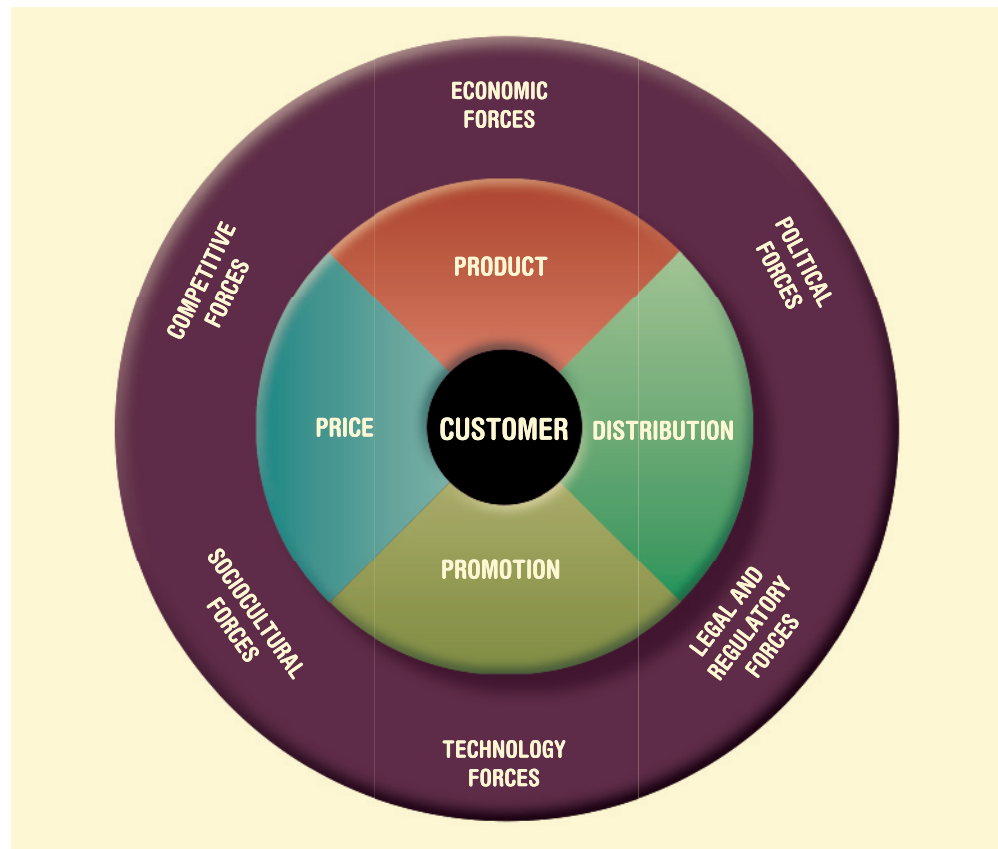
marketing The process of creating, distributing, promoting, and pricing goods, services, and ideas to facilitate satisfying exchange relationships with customers and to develop and maintain favorable relationships with stakeholders in a dynamic environment

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



AP Photo/Anonymous PRNewsFoto/Gazillion Entertainment
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Appealing to Target Markets
Marvel provides online entertainment to satisfy its customers.

Figure 1.1 Components of Strategic Marketing

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an audience, and employees are cast members. Customer satisfaction and enjoyment can come from anything received when buying and using a product.

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

Organizations generally focus their marketing efforts on a specific group of customers, called a **target market**. Marketing managers may define a target market as a vast number of people or a relatively small group. Often companies target multiple markets with different products, promotions, prices, and distribution systems for each one. Vans shoes targets a fairly narrow market segment, especially compared to more diverse athletic shoe companies such as Nike and Reebok. Vans targets skateboarders and snowboarders between the ages of 10 and 24, whereas Nike and Reebok target most sports, age ranges, genders, and price points.³

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

Marketing Deals with Products, Distribution, Promotion, and Price

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

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

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

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

The Product Variable

Successful marketing efforts result in products that become part of everyday life. Consider the satisfaction customers have had over the years from Coca-Cola, Levi's jeans, Visa credit cards, Tylenol pain relievers, and 3M Post-it Notes. The product variable of the marketing mix deals with researching customers' needs and wants and designing a product that

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

Marketing Debate

The Truth about Organic Products

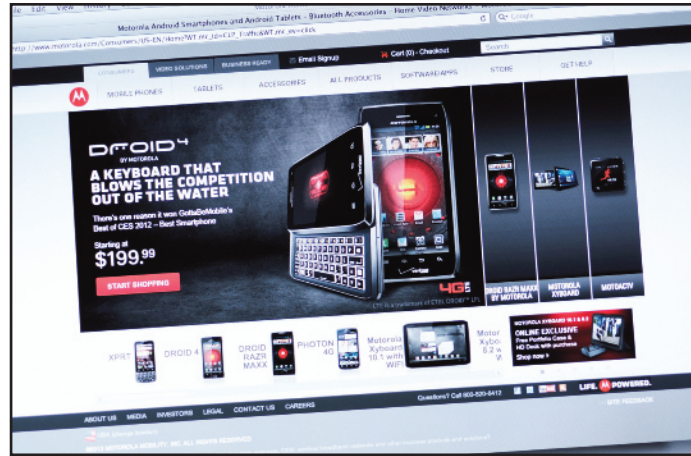
ISSUE: Do consumers understand organic food?

Many consumers equate the title organic with healthy. However, most research has proven that purchasing organic products generally has no significant effect upon an individual's health, although in some cases organic food has been shown to contribute less toward food poisoning. Some organic foods, such as organic potato chips, are just as fattening as non-organic.

So is the term organic misleading? It depends upon how consumers interpret the term. Synthetic chemicals and pesticides are not used on organic produce, although organic pesticides can be used. Organic farming is also more beneficial to the environment. Whatever might be true about organic food, demand for organically grown products has continually risen and shows no signs of slowing down.^a



AP Photo/PR NEWSWIRE



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

product A good, a service, or an idea

satisfies them. A **product** can be a good, a service, or an idea. A good is a physical entity you can touch. Oakley sunglasses, Seven for All Mankind jeans, and Axe body spray are all examples of products. A service is the application of human and mechanical efforts to people or objects to provide intangible benefits to customers. Air travel, education, haircutting, banking, medical care, and day care are examples of services. Ideas include concepts, philosophies, images, and issues. For instance, a marriage counselor, for a fee, gives spouses ideas to help improve their relationship. Other marketers of ideas include political parties, churches, and schools.

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

Product variable decisions and related activities are important because they are directly involved with creating products that address customers’ needs and wants. To maintain an assortment of products that helps an organization achieve its goals, marketers must develop new products, modify existing ones, and eliminate those that no longer satisfy enough buyers or that yield unacceptable profits.

The Distribution Variable

To satisfy customers, products must be available at the right time and in convenient locations. Subway, for example, locates not only in strip malls but also inside Walmarts, Home Depots, Laundromats, churches, and hospitals, as well as inside Goodwill stores, car dealerships, and appliance stores. There are more than 37,000 Subways worldwide, surpassing McDonald’s as the world’s largest chain.⁵

In dealing with the distribution variable, a marketing manager makes products available in the quantities desired to as many target-market customers as possible,



Ruairidh Stewart/ZUMA Press/Newscom

Distribution

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

Emerging Trends

The Demand for Single-Serve Coffee Is Brewing

Starbucks is at it again, taking over the coffee world one mug at a time. In an attempt to diversify itself, Starbucks has begun to pursue efforts to tackle the emerging trend of Verismo single-serve coffee machines. It has set its sights on introducing brewers that enable consumers to make single shots of espresso along with espresso-based drinks and lattes.

One of the ways in which Starbucks promoted the product was by having Starbucks baristas demonstrate how it worked at Williams-Sonoma stores countrywide. The coffee machines are being distributed to specialty home stores as this is a specialty product for Starbucks. The company

named the machine Verismo after a style of Italian opera to spark interest among consumers. Direct competition for Verismo includes Kraft Foods Tassimo, Nestle's Nespresso, and Green Mountain's Keurig machines.

The product itself is quite innovative since it is the first single cup machine that can make brewed coffee, espresso, and lattes with fresh milk. The machine is technically not the first venture Starbucks has made into the single-serve coffee market. The company entered with a single-serve instant coffee packet, which was a highly successful product. If the past is an indicator of how Verismo will perform, Starbucks may be adding another profitable venture to its portfolio.^b

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keeping total inventory, transportation, and storage costs as low as possible. A marketing manager also may select and motivate intermediaries (wholesalers and retailers), establish and maintain inventory control procedures, and develop and manage transportation and storage systems. The advent of the Internet and electronic commerce also has dramatically influenced the distribution variable. Companies now can make their products available throughout the world without maintaining facilities in each country. Apple has benefitted from the ability to download songs and apps over the Internet. The company has supported growth and global success beyond the presence of physical Apple stores by selling phones, computers, iPads, and accessories online. We examine distribution issues in Chapters 13 and 14.

The Promotion Variable

The promotion variable relates to activities used to inform individuals or groups about the organization and its products. Promotion can aim to increase public awareness of the organization and of new or existing products. Century 21 Real Estate, for example, wanted to increase brand preference among young adults between the ages of 25 and 34. The company released a mobile game called We City that gave players the opportunity to build their own virtual cities. Players could choose to place Century 21-branded buildings in their cities as well as watch a 30-second advertisement for Century 21. More than 90 percent choose to insert Century 21-branded buildings into their virtual cities.⁶

Promotional activities also can educate customers about product features or urge people to take a particular stance on a political or social issue, such as smoking or drug abuse. For example, the National Highway Safety Traffic Administration released an ad campaign to deter drunk driving during the holiday season. The campaign carried the message that cops “would see you before you see them.” In the advertisement, a transparent cop watches a drunk couple as they leave a party, only to have them arrested as they are driving home.⁷

Promotion can help to sustain interest in established products that have been available for decades, such as Arm & Hammer baking soda or Ivory soap. Many companies are using the Internet to communicate information about themselves and their products. Campbell's Kitchen provides a diverse array of recipes, coupons, and discussion boards online to support the sales of their soups.⁸

The Price Variable

The price variable relates to decisions and actions associated with establishing pricing objectives and policies and determining product prices. Price is a critical component of the marketing mix because customers are concerned about the value obtained in an exchange. Price is often used as a competitive tool, and intense price competition sometimes leads to price wars. Higher prices can be used competitively to establish a product's premium image. Waterman and Mont Blanc pens, for example, have an image of high quality and high price that has given them significant status. Other companies are skilled at providing products at prices lower than competitors (consider Walmart's tagline "Save Money, Live Better"). Amazon uses its vast network of partnerships and cost efficiencies to provide products at low prices. Brick-and-mortar retailers have not been able to offer comparable products with prices that low, providing Amazon with a considerable competitive advantage.

The marketing-mix variables are often viewed as controllable because they can be modified. However, there are limits to how much marketing managers can alter them. Economic conditions, competitive structure, and government regulations may prevent a manager from adjusting prices frequently or significantly. Making changes in the size, shape, and design of most tangible goods is expensive; therefore, such product features cannot be altered very often. In addition, promotional campaigns and methods used to distribute products ordinarily cannot be rewritten or revamped overnight.

Marketing Creates Value

Value is an important element of managing long-term customer relationships and implementing the marketing concept. We view **value** as a customer's subjective assessment of benefits relative to costs in determining the worth of a product (customer value = customer benefits – customer costs). Consumers develop a concept of value through the integration of their perceptions of product quality and financial sacrifice.⁹ From a company's perspective, there is a trade-off between increasing the value offered to a customer and maximizing the profits from a transaction.¹⁰

Customer benefits include anything a buyer receives in an exchange. Hotels and motels, for example, basically provide a room with a bed and bathroom, but each firm provides a different level of service, amenities, and atmosphere to satisfy its guests. Hampton Inn offers the minimum services necessary to maintain a quality, efficient, low-price overnight accommodation. In contrast, the Ritz-Carlton provides every imaginable service a guest might desire.

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

Value-Driven Marketing

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



Susie Slater/Alamy

The hotel even allows its staff members to spend up to \$2,000 to settle customer complaints.¹¹ Customers judge which type of accommodation offers the best value according to the benefits they desire and their willingness and ability to pay for the costs associated with the benefits.

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

The process people use to determine the value of a product is not highly scientific. All of us tend to get a feel for the worth of products based on our own expectations and previous experience. We can, for example, compare the value of tires, batteries, and computers directly with the value of competing products. We evaluate movies, sporting events, and performances by entertainers on the more subjective basis of personal preferences and emotions. For most purchases, we do not consciously try to calculate the associated benefits and costs. It becomes an instinctive feeling that Kellogg's Corn Flakes is a good value or that McDonald's is a good place to take children for a quick lunch. The purchase of an automobile or a mountain bike may have emotional components, but more conscious decision making also may figure in the process of determining value.

In developing marketing activities, it is important to recognize that customers receive benefits based on their experiences. For example, many computer buyers consider services such as fast delivery, ease of installation, technical advice, and training assistance to be important elements of the product. Customers also derive benefits from the act of shopping and selecting products. These benefits can be affected by the atmosphere or environment of a store, such as Red Lobster's nautical/seafood theme. Even the ease of navigating a website can have a tremendous impact on perceived value. For this reason, General Motors has developed a user-friendly way to navigate its website for researching and pricing vehicles. Using the Internet to compare a Chevrolet to a Mercedes could result in different users viewing each automobile as an excellent value. Owners have rated Chevrolet as providing reliable transportation and having dealers who provide acceptable service. A Mercedes may cost twice as much but has been rated as a better-engineered automobile that also has a higher social status than the Chevrolet. Different customers may view each car as being an exceptional value for their own personal satisfaction.

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