

Marketing

eighth edition



Real People, Real Choices

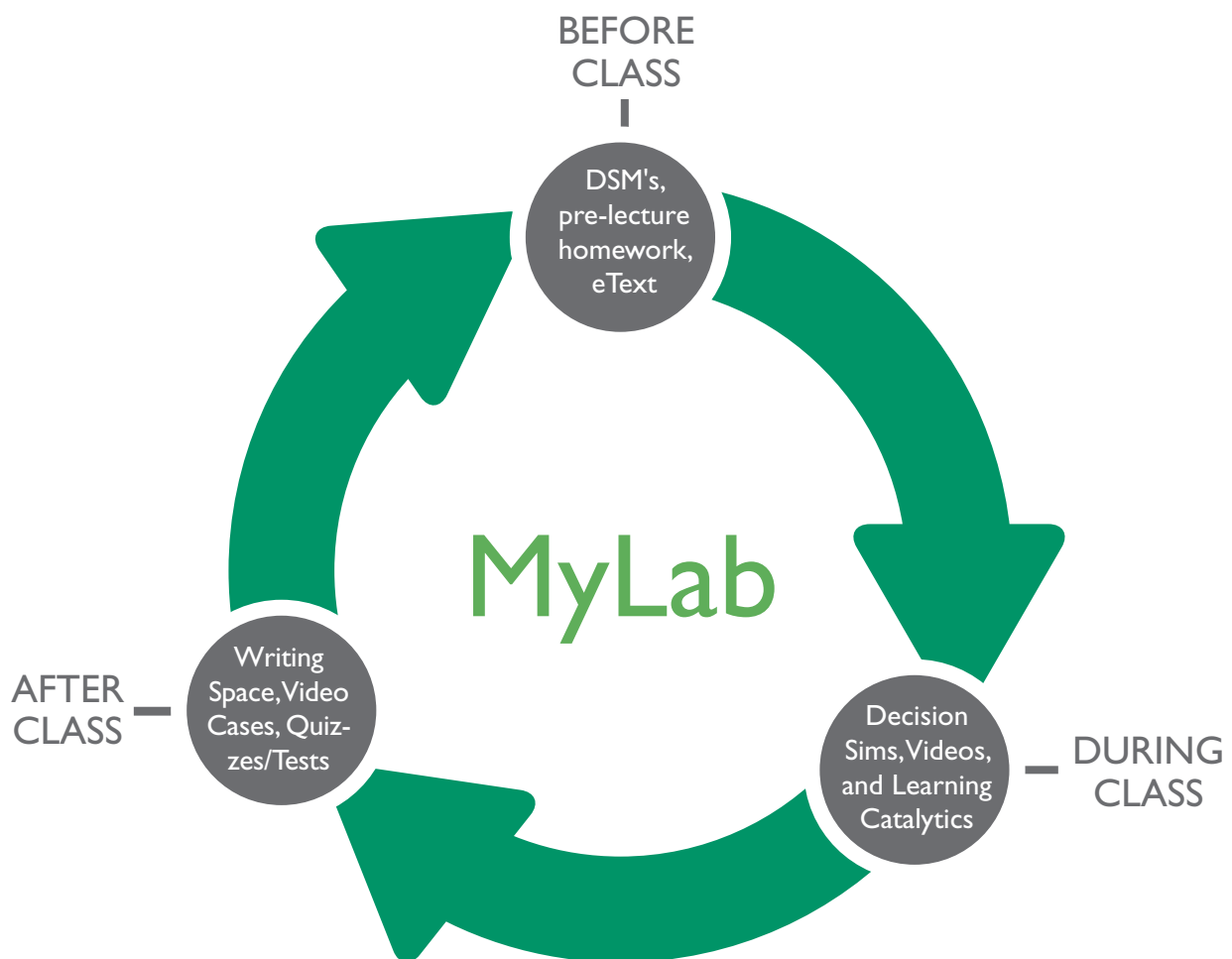
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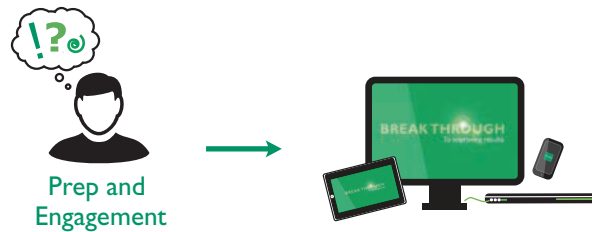
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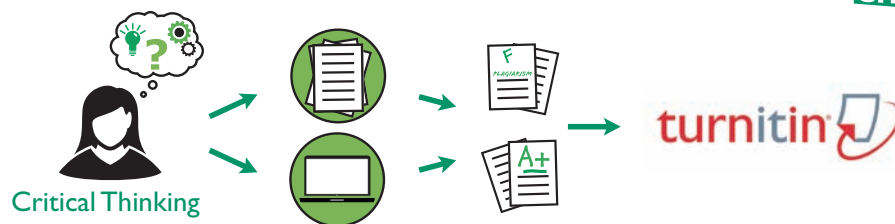
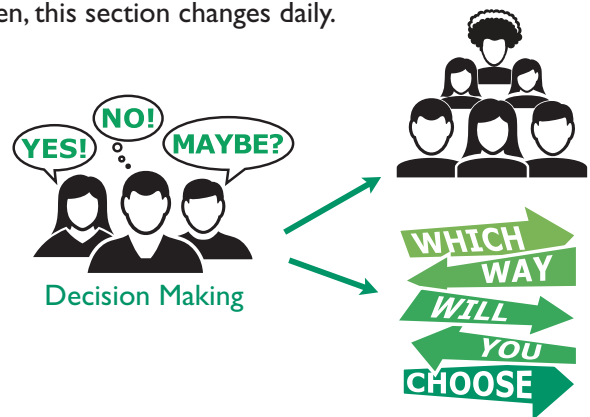


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Eighth Edition

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*To Gail, Amanda, Zachary, Alex, Orly, Rose, Evey
and Arya—my favorite market segment*

—M.S.

To Patti and Justin

—G.M.

To Sonny, Patrick, Gabriela, Allyson, and Marge

—E.S.

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Preface

WHAT'S **NEW** IN THE EIGHTH EDITION?

What's new in the eighth edition is what's new in marketing. To put it simply, we feel a newcomer to marketing today needs to grapple with three core issues: Value, ethics, and metrics.

Here's just a sample of what we changed in this edition:

- First and foremost, we've totally reorganized the Table of Contents to be even more concise and user-friendly. The entire book now consists of just 14 chapters—a very convenient size for most undergraduate basic marketing courses. This “lean and mean” structure will allow an instructor who teaches a semester course to cover important marketing concepts from soup to nuts yet still retain enough flexibility to include time for in-class exercises and discussions as well as assessments of students' learning. No more rushing through the last few chapters at the end of the term. A 14-chapter book hits the “sweet spot” for learning!
- We strongly believe that the exchange of value is the essence of marketing. Prior editions have recognized the centrality of the value proposition, but in the eighth edition, we've more clearly structured the book around that core concept. Our new organizational design hinges on the sequential process of creating and delivering value. Hence, the eighth edition is divided into four sections:
 1. Understand the Value Proposition
 2. Determine the Value Propositions Different Customers Want
 3. Develop the Value Proposition for the Customer
 4. Deliver and Communicate the Value Proposition to the Customer
- Within this new organizational paradigm, we make it clear to the student how the traditional “four-Ps” framework relates to the ultimate goal to align the value needs of a specific customer with the organization's offering. To this end, the four-Ps structure is integrated with the updated emphasis on the value proposition. Chapters 8 through 14 cover Product, Price, Place, and Promotion—but with the real-world decision-making emphasis for which our book is famous.
- The eighth edition shines an even larger spotlight on the importance of ethical marketing. The topic is so important to today's students that we moved our coverage of ethical issues right up front to Chapter 2. As soon as the student understands basically what marketing *is*, he or she learns how it *should be*. And each chapter provides a boxed feature called Ripped from the Headlines: Ethical/Sustainable Decisions in the Real World. Here we describe a questionable marketing practice and then ask students to weigh in on MyMarketingLab in a polling feature so they can assess their response versus that of their peers.
- Today's marketer needs to be “a numbers person.” Increasingly, the field is data driven, and sophisticated analytics are revolutionizing the options organizations have at their fingertips to create, deliver, and measure value. We're proud to say that we've literally doubled our coverage of market research and analytics in this edition: We now couple our Market Research chapter with an entirely new chapter that focuses on how marketers use the exciting new tools they have available to understand and harness “Big Data” as they strive to identify and meet their customers' needs—often literally on a one-to-one basis.
- Last but certainly not least, as always we pride ourselves on the currency of our content. Today's student deserves to know what is going on in the marketing world

today—and also tomorrow to the extent we can predict it. Here is a sample of new Key Terms we introduce in the eighth edition:

Chapter 1

barter
Big Data
collaborative consumption
consumer addiction
crowdsourcing
nongovernmental organization (NGO)
rentpreneurs
shrinkage
social media
societal marketing concept
sustainability

Chapter 2

consumer ethnocentrism
foreign exchange rate (forex rate)
radio frequency identification (RFID)
sachet

Chapter 4

bounce rate
customer insights
data
database
information
neuromarketing
reverse engineering

Chapter 5

click-through
conversion
cost per order
information overload
Internet of Things
marketing analytics
marketing control
marketing metrics
predictive analytics
scanner data
structured data
unstructured data

Chapter 6

encryption
firewall
malware
offshoring
sensory branding

Chapter 7

badge
gamer segment

Generation Z
geographic information system (GIS)
geotargeting
M geographic segmentation
micromarketing
Millennials
usage rate

Chapter 8

adoption pyramid
consumer packaged good (CPG)
creativity
fast-moving consumer good (FMCG)
research and development (R&D)
shopbot
specialized services
value co-creation

Chapter 9

ingredient branding
internal customer mind-set
internal customers
stock-keeping unit (SKU)

Chapter 10

Bitcoin
internet price discrimination
market share
surge pricing

Chapter 11

administered VMS
channel conflict
channel cooperation
channel leader or channel captain
channel power
communication and transaction
 functions
corporate VMS
distribution center
distribution intensity
distribution planning
dual or multiple distribution
 systems
franchise organizations
retailer cooperative
reverse logistics
risk-taking functions
stock-outs
transportation and storage

Chapter 12

experiential shoppers
retailtainment
virtual experiential marketing (VEM)

Chapter 13

authenticated streaming
embedded marketing
native advertising
product placement

Chapter 14

brand polarization
location-based social networks
input measures
output measures
ambient advertising

Features of the Eighth Edition of *Real People, Real Choices*

Meet Real Marketers

Many of the Real People, Real Choices vignettes are new to this edition, featuring a variety of decision makers, from CEOs to brand managers. Here is just a sample of the marketers we feature:

- Joe Kennedy, Pandora
- Keith Sutter, Johnson & Johnson
- Ryan Garton, Discover
- David Clark, General Mills
- Neal Goldman, Under Armour
- Mark Brownstein, Brownstein Group
- Stephanie Nashawaty, Oracle
- Stan Clark, Eskimo Joe's

Ethics and Sustainability in Marketing

Because the role of ethics and sustainability in business and in marketing is so important, we focus on these topics not just in a single chapter but in *every chapter* of the book. These Ripped from the Headlines boxes feature real-life examples of ethical and sustainable decisions marketers are faced with on a day-to-day basis.

Cutting-Edge Technology

With technology evolving at a rapid-fire pace, it's now more important than ever for today's marketers to stay on the cutting edge of the latest technological developments. Viral marketing campaigns are just the tip of the iceberg! The Cutting Edge boxes feature the most current technological advances and explain how companies are using them to deliver value and creatively get their messages out to consumers.

Easy-to-Follow Marketing Plan Template

Marketing: Real People, Real Choices, eighth edition, includes a handy tear-out template of a marketing plan you can use as a road map as you make your way through the book. The template provides a framework that will enable you to organize marketing concepts by chapter and create a solid marketing plan of your own. On the back of the template is a contemporary world map as a reminder that all marketing today is global. We encourage you to keep this tear-out as a handy reference after the class.

Marketing Plan Appendix

Appendix A, The Marketing Plan, provides a basic marketing plan for the fictitious S&S Smoothie Company. This plan gives students the foundation they need to craft a complete marketing plan for a class project. In this edition, the plan is updated to include helpful “how to” guidelines that answer many of the questions that students ask while developing their own plans.

New Career Appendix

Appendix B, You, Marketing, and Your Career, provides guidance for students on how to plan for a successful and rewarding career, whether in marketing or another field. Career success is framed as developing a unique brand that meets the needs of the job market. Career guidance recommendations follow the steps in the marketing plan with suggestions at each step for critical thinking and specific actions.

End-of-Chapter Study Map

Each chapter has an integrative study map for students that includes an Objective Summary, Key Terms, and student assessment opportunities of several types: Concepts: Test Your Knowledge; Activities: Apply What You’ve Learned; Apply Marketing Metrics (more on this one below); Choices: What Do You Think?, and Miniproject: Learn by Doing. By completing these assessments, students and instructors achieve maximum assurance of learning.

Measuring the Value of Marketing through Marketing Metrics

Just how do marketers add value to a company, and how can that value be quantified? More and more, businesses demand accountability, and marketers respond as they develop a variety of “scorecards” that show how specific marketing activities directly affect their company’s ROI—return on investment. And on the job, the decisions that marketers make increasingly come from data and calculations and less from instinct. Each chapter provides a Metrics Moment box that describes some important ways to measure important marketing concepts, followed by an Apply the Metric exercise that asks the student to actually work with some of these measures. And every end-of-chapter includes an Apply Marketing Metrics exercise that provides additional opportunities for students to practice measures that marketers use to help them make good decisions. New to this edition, pricing exercises included at the end of the Marketing Math Supplement following Chapter 10 provide the opportunity for students to work real-life pricing problems.

New and Updated End-of-Chapter Cases in This Edition

Each chapter concludes with an exciting Marketing in Action mini-case about a real firm facing real marketing challenges. Questions at the end let you make the call to get the company on the right track.

Instructor Resources

At the Instructor Resource Center, www.pearsonhighered.com/irc, instructors can easily register to gain access to a variety of instructor resources available with this text in downloadable format. If assistance is needed, our dedicated technical support team is ready to help with the media supplements that accompany this text. Visit <http://247.pearsoned.com> for answers to frequently asked questions and toll-free user support phone numbers.

The following supplements are available with this text:

- Instructor’s Resource Manual
- Test Bank
- TestGen® Computerized Test Bank
- PowerPoint Presentation
- Instructor Video Library

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MICHAEL R. SOLOMON, PhD, joined the Haub School of Business at Saint Joseph's University in Philadelphia as professor of marketing in 2006, where he also serves as director of the Center for Consumer Research. From 2007 to 2013, he also held an appointment as professor of consumer behaviour at the University of Manchester in the United Kingdom. From 1995 to 2006, he was the Human Sciences Professor of Consumer Behavior at Auburn University. Prior to joining Auburn in 1995, he was chairman of the Department of Marketing in the School of Business at Rutgers University, New Brunswick, New Jersey. Professor Solomon's primary research interests include consumer behavior and lifestyle issues; branding strategy; the symbolic aspects of products; the psychology of fashion, decoration, and image; services marketing; and the development of visually oriented online research methodologies. He currently sits on the editorial boards of the *Journal of Consumer Behaviour*, the *European Business Review*, and the *Journal of Retailing*, and he recently completed a six-year term on the Board of Governors of the Academy of Marketing Science. In addition to other books, he is also the author of Prentice Hall's text *Consumer Behavior: Buying, Having, and Being*, which is widely used in universities throughout the world. Professor Solomon frequently appears on television and radio shows, such as *The Today Show*, *Good Morning America*, Channel One, the *Wall Street Journal* Radio Network, and National Public Radio to comment on consumer behavior and marketing issues.



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Chapter 1: Joe Kennedy, Pandora
Chapter 2: Keith Sutter, Johnson & Johnson
Chapter 3: Stephanie Nashawaty, Oracle
Chapter 4: Ryan Garton, Discover Financial

Chapter 5: Lisa Arthur, Teradata
 Chapter 6: Adam Wexler, Intellipool
 Chapter 7: Margaret Molloy, Siegel+Gale
 Chapter 8: Neal Goldman, Under Armour
 Chapter 9: David Clark, General Mills
 Chapter 10: Betsy Fleming, Converse College
 Chapter 11: Marc Brownstein, Brownstein Group
 Chapter 12: Rohan Deuskar, Stylistics
 Chapter 13: Dan Marks, First Tennessee Bank
 Chapter 14: Stan Clark, Eskimo Joe's

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Marketing

Real People, Real Choices

Eighth Edition

Welcome to the World of Marketing

Create and Deliver Value

Objective Outline

1. Explain what marketing is, the marketing mix, what can be marketed and the value of marketing pp. 4-10
MARKETING: WHAT IS IT? p. 4
2. Explain the evolution of the marketing concept pp. 11-16
WHEN DID MARKETING BEGIN?
THE EVOLUTION OF A CONCEPT p. 11
3. Understand value from the perspectives of customers, producers, and society pp. 16-24
THE VALUE OF MARKETING AND THE MARKETING OF VALUE p. 16
4. Explain the basics of market planning pp. 24-25
MARKETING AS A PROCESS p. 24

Check out the Chapter 1 **Study Map** on page 26.



Joe Kennedy

▼ A Decision Maker at Pandora

Joe Kennedy is chief executive officer and president of Pandora, the Internet radio company that more than 65 million people use to create personalized radio stations that they can listen to from their computers, phones, TVs, and cars. Just type the name of one of your favorite songs or artists into Pandora, and it will instantly generate a station with music pulled from its collection of more than 800,000 songs. Enter Rihanna and connect to similar artists like Loer Velocity and The Cab. Is Ludacris more your speed? Discover 112 or Sensational.

How does Pandora customize stations to each individual listener? It all has to do with the Music Genome Project (MGP); Pandora describes it as the most comprehensive analysis of music ever undertaken. Over the past decade, MGP's team of musician-analysts has classified each song based on up to 400 distinct musical characteristics. It takes an analyst 20 to 30 minutes to analyze a song and record the details that define it, such as melody, harmony, instrumentation, rhythm, vocals, and lyrics. Artists receive royalties from Pandora every time one of their songs is played on a station.

Joe Kennedy joined Pandora in 2004 following a five-year stint at E-LOAN, where he was president and chief operating officer. From 1995 to 1999, he was the vice president of sales, service, and marketing for Saturn Corporation, which he grew to more than \$4 billion in revenue and established as the top brand for customer satisfaction in the auto industry. Joe joined the initial start-up team at Saturn, four months after it was founded, as a marketing manager and held positions of increasing marketing responsibility over the course of his 11-year tenure there.

Joe has an MBA from Harvard Business School and a BS degree in electrical engineering and computer science from Princeton University, where he dabbled in music theory and learned to compose his own Gregorian chants. According to his bio on the Pandora site, he is Pandora's resident pop music junkie. Joe has also been playing the piano for more than 30 years, spending a majority of that time attempting to master Gershwin's "Rhapsody in Blue."

Joe's Info

What I do when I'm not working?

Work on my tennis game, trying to finally reach that elusive top 10 national ranking in my age-group.

Business book I'm reading now?
Checklist Manifesto by Atul Gawande.

My hero?

Lee Fauve, the president of Saturn from 1986 to 1995.

What drives me?

Bringing about game-changing innovation in categories that consumers are passionate about.

My management style?

Hire senior, experienced, self-motivated leaders who know more about their functional areas than I do and let them do their thing.

My pet peeve?

People who are always running late. It's a clear sign of self-centeredness when someone always keeps other people waiting.



Here's my **problem...**

Real People, Real Choices

The company was founded in January 2000 by Tim Westergren, a pianist who played in rock and jazz bands for 10 years before he became a film composer. As he analyzed music to

decide what film directors would like, he got the idea of creating a technology that would reflect people's tastes and deliver music that fit those tastes. Tim raised \$1.5 million and started Savage Beast Technologies, which sold music recommendations services to companies like Best Buy. But the company struggled as the dot-com boom of the late 1990s burst. Tim and his employees worked on an unpaid basis for several years before they got more financial backing in 2004 (after Tim made 347 unsuccessful pitches to investors!). Tim paid his employees, switched the company's name to Pandora, and changed its focus to consumers instead of businesses. To lead this strategic shift, the newly christened Pandora hired Joe Kennedy, who had solid experience building consumer products. The company knew it was on to something when it first released Pandora in a beta version for family and friends. Within a week, 5,000 people had used the service to discover new music.

That was encouraging, but a 5,000-user base isn't nearly enough to entice advertisers to buy space on the site. Pandora needed to make money by attracting enough people to capture the interest of potential advertising clients; these companies in turn would pay to place ads that would reach Pandora's users. The challenge was to avoid the fate of many other Internet start-ups that offered cool features but never grew to the scale where they could turn a profit. Joe needed to build a solid customer base so he could develop a firm business model for Pandora. He knew that if he could just make music lovers aware of the value Pandora offered, he would be able to turn the fledgling service into a marketing success.

Things to remember

Pandora doesn't charge people to use its service. It makes its money by attracting advertisers who want to reach users. In order for the company to entice companies to advertise, it has to offer them access to large numbers of consumers who are likely to tune in to the ads they will encounter on the site.

Part of Pandora's unique product offering is the ability to customize music for each individual user. Everyone who registers can create their own "stations" that play songs with similar characteristics. This enables users to learn about artists they might not otherwise stumble on, so potentially Pandora can create new audiences for independent musicians and for music labels.

Word of mouth is the least expensive way to attract large numbers of Web surfers to Pandora's site. However, it's difficult to build buzz in an environment where many other products and services compete for the consumer's scarce attention.

Joe considered his Options 1·2·3

1

Option

Launch an advertising campaign on radio stations, in music magazines, and at record stores. Advertising is a great way to create awareness of a new product or service, but it takes a lot of money to cut through the clutter of competing messages. To afford advertising, Pandora would have had to convince financial backers that a substantial up-front investment would pay off as droves of users flocked to the site once they heard or read about it.

2

Option

Build a buzz about Pandora through word of mouth. Put Tim Westergren, the company's founder, in front of groups of music lovers to tell the unique story of Pandora and how the MGP makes it work. Cultivate a dedicated fan base by reaching out to social networks on Twitter and Facebook and then rely on these converts to spread the word to their friends. A buzz-building strategy is very inexpensive, and, if done well, it can create a large group of devoted followers almost overnight. On the other hand, a start-up has to compete with the thousands of others that are trying to recruit fans, and it might be difficult to reach a mass audience as opposed to hard-core music lovers without any catchy advertising.

3

Option

Sell the service to a large chain of record stores, a music magazine, or even a record label. Pandora could return to its roots as a music recommendation service for businesses. If a large company (like Virgin Records) could offer the service exclusively to its customers, almost instantly Pandora would have access to many thousands of music buyers. In the same way that *USA Today* is able to claim a huge circulation (and thus attract a lot of advertising dollars) because it is distributed free to hotel guests across the country, Pandora would inherit an impressive distribution network. However, this choice would entail giving up control of the unique MGP and its sophisticated database that the company had worked so hard to build. Hard-core music fans might accuse Pandora of "selling out," and they might question how objective its recommendations were.

Now, put yourself in Joe's shoes. Which option would you consider, and why?

You Choose

Which **Option** would you choose, and **why**?

1. YES NO 2. YES NO 3. YES NO

See what **option** Joe chose on **page 26** ➔

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Chapter 1

1

Marketing: What Is It?

consumer

The ultimate user of a good or service.

marketing

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

OBJECTIVE

Explain what marketing is, the marketing mix, what can be marketed and the value of marketing.

(pp. 4-10)

Marketing. Lots of people talk about it, but what is it? You already know a lot about marketing—it's been a part of your life from day one. As one of millions of **consumers**, you are the ultimate user of a good or service. Every time you purchase or use your car, your clothes, your lunch at the cafeteria (whether an old-school burger or a vegan version), a movie, or a haircut, you are part of the marketing process. In this book, we'll tell you why—and why you should care.

Indeed, consumers like you (and your humble authors!) are at the center of all marketing activities. Of course, when we refer to consumers, we don't just mean individuals. Organizations, whether a company, government, sorority, or charity, also are consumers.

Here's the key: *Marketing is first and foremost about satisfying consumer needs.* We like to say that the consumer is king (or queen), but it's important not to lose sight of the fact that the seller also has needs—to make a profit, to remain in business, and even to take pride in selling the highest-quality products possible. Products are sold to satisfy both consumers' and marketers' needs—it's a two-way street.

When you ask people to define **marketing**, you get many answers. Some people say, "That's what happens when a pushy salesman tries to sell me something I don't want." Many people say, "Oh, that's simple—TV commercials." Students might answer, "That's a course I have to take before I can get my business degree." Each of these responses has a grain of truth in it, but the official definition of marketing the American Marketing Association adopted in 2013 is as follows:

Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.¹

The basic idea behind this somewhat complicated definition is that marketing is all about delivering value to everyone whom a transaction affects. We'll dig deeper into that definition to understand exactly what marketing is all about.

Marketing Is the Activity, Institutions, and Processes ...


As we will discuss throughout this book, marketing includes a great number of activities—from top-level market planning to simple tasks, such as a salesperson calling on a customer or a copywriter creating a magazine ad. What role does marketing play in a firm? The importance organizations assign to marketing activities varies a lot. Top management in some firms is very marketing oriented (especially when the chief executive officer, or CEO, comes from the marketing ranks), whereas in other companies marketing is an afterthought. However, analysts estimate that at least one-third of CEOs come from a marketing background—so stick with us!

Sometimes a company uses the term *marketing* when what it really means is sales or advertising. In some small organizations, no one may specifically be designated as "the marketing person." And some firms realize that marketing applies to all aspects of the firm's activities and integrates it with other business functions (such as management and accounting).

No matter what size the firm, a marketer's decisions affect—and are affected by—the firm's other operations. Marketing managers must work with financial and accounting officers to figure out whether products are profitable, to set marketing budgets, and to determine prices. They must work with people in manufacturing to be sure that products

are produced on time and in the right quantities. Marketers also must work with research-and-development specialists to create products that meet consumers' needs.

... for Creating, Communicating, Delivering, and Exchanging: The Marketing Mix ...

As we said, marketing is about satisfying needs. To do this, marketers need many tools. The **marketing mix** is the marketer's strategic toolbox. It consists of the tools the organization uses to create a desired response among a set of predefined consumers. These tools include the product itself, the price of the product, the promotional activities that introduce it to consumers, and the places where it is available. We commonly refer to the elements of the marketing mix as the **four Ps**: *product, price, promotion, and place*. As  Figure 1.1 shows, each P is a piece of the puzzle that the marketer must combine with other pieces. Just as a radio DJ puts together a collection of separate songs (a musical mix) to create a certain mood, the idea of a mix in this context reminds us that no single marketing activity is sufficient to accomplish the organization's objectives.

Although we talk about the four Ps as separate parts of a firm's marketing strategy, in reality, product, price, promotion, and place decisions are totally interdependent. Decisions about any single one of the four are affected by and affect every other marketing mix decision. For example, what if Superdry (a rapidly growing apparel company) decides to introduce a leather biker jacket that is higher end than the ones it makes now? If the company uses more expensive materials to make this item, it has to boost the selling price to cover these higher costs—this also signals to consumers that the garment is more upscale. In addition, Superdry would have to create advertising and other promotional strategies to convey a top-quality image. Furthermore, the firm must include high-end retailers like Bloomingdale's in its distribution strategy to ensure that shoppers who seek out high-end items will come across the jacket. Thus, all the pieces in the puzzle we call the marketing mix work together.

We'll examine these components of the marketing mix in detail later in this book. For now, let's briefly look at each of the four Ps to gain some more insight into their role in the marketing mix.

Product

A **product** can be a good, a service, an idea, a place, a person—whatever a person or organization offers for sale in the exchange. Creating new products is vital to the success and even the very life of an organization. This aspect of the marketing mix includes the design and packaging of a good as well as its physical features and any associated services, such as free delivery.

The product is a combination of many different elements, all of which are important to the product's success. For example, when the British airline Virgin Atlantic set out to reposition itself as the world's "most irresistible airline," the company focused on standing out from the competition through its superior customer service both in the air and in its advertising. The airline's "Flying in the Face of Ordinary" campaign features children with special extraordinary talents that they put to use one day as future employees.² Whether the focus is on customer service or some other element, the product is an important part of the marketing mix.

marketing mix

A combination of the product itself, the price of the product, the promotional activities that introduce it and the place where it is made available, that together create a desired response among a set of predefined consumers.

four Ps

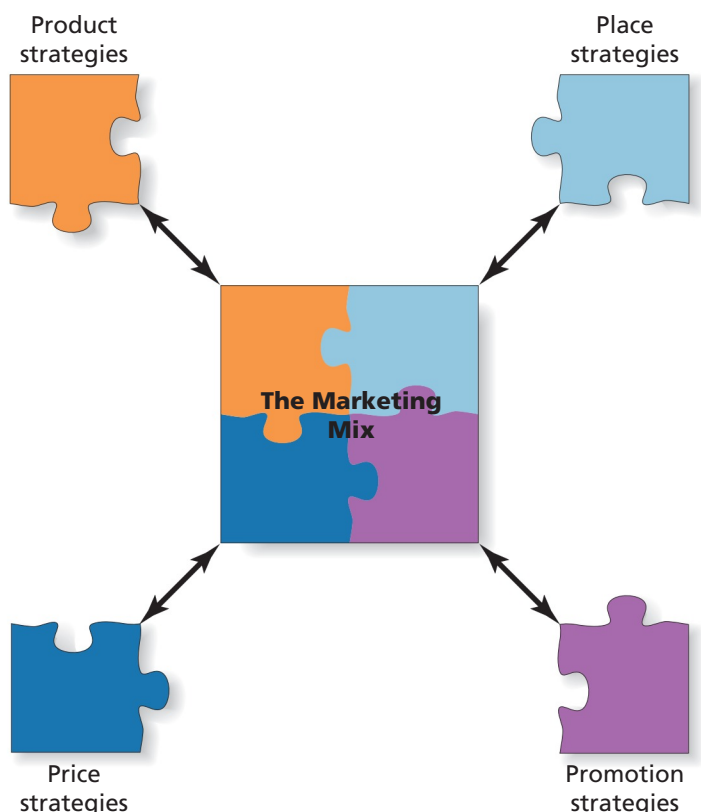
Product, price, promotion, and place.

product

A tangible good, service, idea, or some combination of these that satisfies consumer or business customer needs through the exchange process; a bundle of attributes including features, functions, benefits, and uses.

Figure 1.1  **Snapshot** | The Marketing Mix

The marketing mix is the marketer's strategic toolbox.



APPLYING ▼ Promotional Elements

Joe has to decide on a communications strategy for Pandora. Part of this decision is to choose which promotional elements he should use to attract more users. His options include paid advertising, publicity releases and “buzz building.”

promotion

The coordination of a marketer’s communication efforts to influence attitudes or behavior.

place

The availability of the product to the customer at the desired time and location.

price

The assignment of value, or the amount the consumer must exchange to receive the offering.

exchange

The process by which some transfer of value occurs between a buyer and a seller.

Promotion

Promotion, often referred to as marketing communications includes all the activities marketers undertake to inform consumers about their products and to encourage potential customers to buy these products. Marketing communications can take the form of many different promotional elements, including personal selling, TV advertising, store coupons, billboards, magazine ads, publicity releases, and an increasing number of online communications including social media. Today’s marketers recognize that many consumers, especially young ones, don’t watch TV or read magazines except via the Internet. As a result, advertising budgets today include fewer dollars invested in traditional media and increases in online expenditures.

Place

Place refers to the availability of the product to the customer at the desired time and location. This P relates to a *supply chain*—the set of firms that work together to get a product from a producer to a consumer. For clothing or electronics, this channel includes local retailers as well as other outlets, such as retail sites on the Web that strive to offer the right quantity of products in the right styles at the right time.

Price

Price is the assignment of value, or the amount the consumer must exchange to receive the offering. Marketers often turn to price to increase consumers’ interest in a product. This happens when they put an item on sale, but in other cases marketers actually try to sell a product with a *higher* price than people are used to if they want to communicate that it’s high quality or cutting edge. For example, Universal Studios Hollywood offers VIP Experience tickets to its park goers—premium perks that come with premium pricing to the tune of \$349 per person. VIP ticket holders get a personal tour guide, exclusive back-lot entrée, unlimited front-of-line access to rides, and more.³

At the heart of every marketing act—big or small—is something we refer to as an “exchange relationship.” An **exchange** occurs when a person gives something and gets something else in return. The buyer receives an object, service, or idea that satisfies a need, and the seller receives something he or she feels is of equivalent value. Today, most but not all exchanges occur as a monetary transaction when one party surrenders currency (in the form of cash, check, or credit card) in return for a good or a service. But there are also other kinds of exchanges. A politician, for example, can agree to work toward certain goals in exchange for your vote, city officials may offer you a cleaner environment if you recycle, and health officials tell you that you can save lives if you wash your hands properly.

For an exchange to occur, at least two people or organizations must be willing to make a trade, and each must have something the other wants. Both parties must agree on the value of the exchange and how it will be carried out. Each party also must be free to accept or reject the other’s terms for the exchange. Under these conditions, a gun-wielding robber’s offer to “exchange” your money for your life does not constitute a valid exchange. In contrast, although someone may complain that a store’s prices are “highway robbery,” an exchange occurs if he still forks over the money to buy something there—even if he still grumbles about it weeks later.

To complicate things a bit more, everyone does not always agree on the terms of the exchange. Think, for example, about *music piracy*, which is a huge headache for music labels. On the one hand, they claim that they lose billions of dollars a year when consumers download songs without paying for them. On the other hand, a lot of people who engage in this practice don’t feel that they participate in an unfair exchange that deprives manufacturers of the value of their products. They argue that music piracy is the fault of record companies that charge way too much for new songs. What do you think?

... Offerings ...: What Can We Market?

Is there any limit to what marketers can market? Marketing applies to more than just canned peas or Doritos. Some of the best marketers come from the ranks of services companies such as American Express or not-for-profit organizations like Greenpeace. Politicians, athletes, and performers use marketing to their advantage (just think about that \$30 T-shirt you may have bought at a baseball game or rock concert). Ideas such as political systems (democracy, totalitarianism), religion (Christianity, Islam), and art (realism, abstract) also compete for acceptance in a “marketplace.” In this book, we’ll refer to any good, service, or idea that we can market as a product, even though what you buy may not take a physical form.

Consumer Goods and Services

Consumer goods are the tangible products that individual consumers purchase for personal or family use. **Services** are intangible products that we pay for and use but don’t own. Service transactions contribute on average more than 60 percent to the gross national product of all industrialized nations. Marketers need to understand the special challenges that arise when they market an intangible service rather than a tangible good.⁴ Because both goods and services are products, it’s correct to say “goods and services” rather than “products and services.”

In both cases, though, keep in mind that the consumer expects to obtain some underlying value, such as convenience, security, or status, from a marketing exchange. That value can come from a variety of competing goods and services, even those that don’t resemble one another on the surface. For example, a new CD and a ticket to a local concert may cost about the same, and each may provide the benefit of musical enjoyment, so consumers often have to choose among competing alternatives if they can’t afford (or don’t want) to buy them all.

Business-to-Business Goods and Services

Business-to-business marketing is the marketing of goods and services from one organization to another. Although we usually relate marketing to the thousands of consumer goods begging for our dollars every day, the reality is that businesses and other organizations buy a lot more goods than consumers do. They purchase these **industrial goods** for further processing or to use in their own business operations. For example, automakers buy tons of steel to use in the manufacturing process, and they buy computer systems to track manufacturing costs and other information essential to operations.

Similarly, there is a lot of buzz about **e-commerce** and the buying and selling of products—books, CDs, cars, and so forth—on the Internet. However, just like in the offline world, much of the real online action is in the area of business-to-business marketing.

Not-for-Profit Marketing

As we noted earlier, you don’t have to be a businessperson to use marketing principles. Many **not-for-profit organizations** (also known as **nongovernmental organizations** or **NGOs**), including museums, zoos, and even churches, practice the marketing concept. Local governments are adopting marketing techniques to create more effective taxpayer services and to attract new businesses and industries to their counties and cities. Even states are getting into the act: We’ve known for a long time that I ♥ NY, but recently Kentucky and Oregon hired advertising agencies to develop statewide branding campaigns (the official state motto of Oregon is now “Oregon. We love dreamers.”).⁵ The intense competition for



Marketing an intangible service like the assistance this British fence company offers poses unique challenges.

consumer goods

The goods individual consumers purchase for personal or family use.

services

Intangible products that are exchanged directly between the producer and the customer.

business-to-business marketing

The marketing of goods and services from one organization to another.

industrial goods

Goods that individuals or organizations buy for further processing or for their own use when they do business.

e-commerce

The buying or selling of goods and services electronically, usually over the Internet.

not-for-profit organizations

Organizations with charitable, educational, community, and other public service goals that buy goods and services to support their functions and to attract and serve their members.

nongovernmental organizations (NGOs)

Another name for not-for-profit organizations.

support of civic and charitable activities means that only the not-for-profits that meet the needs of their constituents and donors will survive.

Idea, Place, and People Marketing

Marketing principles also encourage people to endorse ideas or to change their behaviors in positive ways. Many organizations work hard to convince consumers not to litter our highways, to avoid texting while driving, or to believe that one political system is preferable to another. In addition to ideas, places and people also are marketable. We are all familiar with tourism marketing that promotes exotic resorts like Club Med (“the antidote for civilization”). For many developing countries like Thailand, tourism provides an important opportunity for economic growth.

You may have heard the expression “Stars are made, not born.” There’s a lot of truth to that. Beyoncé may have a killer voice and Ryan Braun may have a red-hot baseball bat, but talent alone doesn’t make thousands or even millions of people buy CDs or stadium seats. Some of the same principles that go into “creating” a celebrity apply to you. An entertainer—whether Miranda Lambert, Selena Gomez, or Drake—must “package” his or her talents, identify a market that is likely to be interested, and work hard to gain exposure to these potential customers by appearing in the right musical venues.

In the same way, everyday people like you “package” themselves when they sum up their accomplishments on LinkedIn and join professional groups to link with as many “buyers” as they can. And this person marketing perspective is more valid than ever—now that almost everyone can find “15 minutes of fame” on a Web site, a blog, or a YouTube video. We even have a new word—*microcelebrity*—to describe those who are famous, not necessarily to millions of people but certainly to hundreds or even thousands who follow their comings and goings on Facebook, Flickr, or Twitter.

marketing concept

A management orientation that focuses on identifying and satisfying consumer needs to ensure the organization’s long-term profitability.

need

The recognition of any difference between a consumer’s actual state and some ideal or desired state.

want

The desire to satisfy needs in specific ways that are culturally and socially influenced.

... Value for Customers ...

Most successful firms today practice the **marketing concept**—that is, marketers first identify consumer needs and then provide products that satisfy those needs to ensure the firm’s long-term profitability. A **need** is the difference between a consumer’s actual state and some ideal or desired state. When the difference is big enough, the consumer is motivated to take action to satisfy the need. When you’re hungry, you buy a snack. If you’re not happy with your hair, you get a new hairstyle. When you need a job (or perhaps just get mad at your boss), you network on LinkedIn.

Needs relate to physical functions (such as driving) or to psychological ones (such as the need for security). Subaru is one company that tries to meet the psychological needs of consumers to feel safe (as well as their need for reliable transportation). While many Americans feel a connection with their automobiles, Subaru owners maintain a special bond. Browse the Subaru website, and you’ll see story after story and photo after photo of people involved in a car crash who wrote in to say that their Subaru saved their lives. Now that’s a car worth loving!

The specific way a person satisfies a need depends on his or her unique history, learning experiences, and cultural environment. That explains why Nestlé’s Kit Kat is the number one candy brand in Japan—but the flavors you buy there include green tea, soy sauce, yubari melon, and sweet potato.⁶ A **want** is a desire for a particular product



Courtesy of UAB “Milk Agency”

This Italian ketchup brand illustrates how the condiment satisfies a simple need.

we use to satisfy a need in specific ways that are culturally and socially influenced. For example, two classmates' stomachs rumble during a lunchtime lecture, and both need food. However, each of the two may satisfy this need in quite a different way. The first student may be a health nut who fantasizes about gulping down a big handful of trail mix, while the second person may lust for a greasy cheeseburger and fries. The first student's want is trail mix, whereas the second student's want is fast food (and some antacid for dessert).

The late management guru Peter Drucker observed, "The aim of marketing is to make selling superfluous."⁷ A product delivers a **benefit** when it satisfies a need or want. For marketers to be successful, they must develop products that provide one or more benefits that are important to consumers. The challenge is to identify what benefits people look for and then develop a product that delivers those benefits while also convincing consumers that their product is better than a competitor's product—this makes the choice of which product to buy obvious. For example, in order to satisfy customers' desires for menu offerings that match their healthy lifestyle, McDonald's introduced its line of customizable Premium McWraps. Known as the "Subway buster," these low-priced, fresh McWraps go head to head with Subway's offerings.⁸

Everyone can want your product, but that doesn't ensure sales unless consumers have the means to obtain it. When you couple desire with the buying power or resources to satisfy a want, the result is **demand**. So the potential customers looking for a snappy red BMW convertible are the people who want the car minus those who can't afford to buy or lease one (no, stealing the car doesn't count). A **market** consists of all the consumers who share a common need that can be satisfied by a specific product and who have the resources, willingness, and authority to make the purchase.

A **marketplace** used to be a location where buying and selling occurs face-to-face. In today's "wired" world, however, many buyers and sellers most likely will never meet in person. The modern **marketplace** may take the form of a glitzy shopping mall, a mail-order catalog, a TV shopping network, an eBay auction, or a phone app. In developing countries, the marketplace may be a street corner or an open-air market where people sell fruits and vegetables much as they did thousands of years ago. Indeed, a marketplace may not even exist in the physical world—as players of online games will tell you. Residents of cyberworlds like *Second Life* and *Habbo Hotel* buy and sell virtual real estate, home furnishings, and bling for their digital avatars; in 2012 alone, they bought about \$2.9 billion worth of **virtual goods** that exist only on a computer server.

Marketplaces are evolving in another interesting way as well: Increasingly consumers, especially younger ones, would rather rent than purchase the products they use. One of the biggest changes is in the domain of car sales, which are plummeting among newer drivers. Innovative start-ups like Zipcar figured out that many people, especially those who live in urban areas, would rather rent a ride by the hour instead of dealing with the hassles of car loans and hunting for parking spots when they weren't using their cars. Now the big guys are testing the waters. Volkswagen's Quicar project rents cars in Hanover, Germany, while BMW continues its international expansion of the DriveNow electric vehicle car-sharing program from Europe to the U.S.

Similar models for bike sharing (Vélib in Paris, Citi Bike in New York), music sharing (Spotify, Pandora) and even apartment sharing (Airbnb) are upending business models all over the place as consumers figure out that it often makes a lot more sense to lease what you need only when you need it.⁹ Millions of enterprising consumers in turn are becoming **rentpreneurs** as they make money by renting out their stuff when they aren't using it—they're offering everything from barbecue grills and power tools to Halloween costumes and who knows what else on sites like Zilok in France and Craigslist in the U.S. Some analysts refer to this mushrooming trend as **collaborative consumption**.

benefit

The outcome sought by a customer that motivates buying behavior that satisfies a need or want.

demand

Customers' desires for products coupled with the resources needed to obtain them.

market

All the customers and potential customers who share a common need that can be satisfied by a specific product, who have the resources to exchange for it, who are willing to make the exchange, and who have the authority to make the exchange.

marketplace

Any location or medium used to conduct an exchange.

virtual goods

Digital products consumers buy for use in online contexts.

APPLYING ▼ Demand

Joe needs to understand the potential demand for Pandora's services so he can develop a plan that will maximize the number of these consumers who actually visit the site on a regular basis.

rentpreneurs

enterprising consumers who make money by renting out their possessions when they aren't using them.

collaborative consumption

A term used to refer to the activities practiced by rentpreneurs.