sixth edition

marketing

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

The definition of marketing, established by the American Marketing Association, October 2007. Word in italics was added by authors.

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Marketing

Sixth Edition

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Babson College

Michael Levy, PhD
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Mc
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Education

MARKETING, SIXTH EDITION

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To my family for their never-ending support;
my wife Diana; and my children, Lauren and Alex.

—**Dhruv Grewal**

To Mark Levy, my best friend and brother.

—**Michael Levy**

about the authors

Dhruv Grewal

Courtesy of Dhruv Grewal

Dhruv Grewal, PhD (Virginia Tech), is the Toyota Chair in Commerce and Electronic Business and a professor of marketing at Babson College. He is listed in The World's Most Influential Scientific Minds, Thompson Reuters 2014 (only eight from the marketing field and 95 from economics and business are listed). He was awarded the 2013 university-wide Distinguished Graduate Alumnus from his alma mater, Virginia Tech, the 2012 Lifetime Achievement Award in Pricing (AMA Retailing & Pricing SIG), the 2010 Lifetime Achievement Award in Retailing (AMA Retailing SIG), the 2010 AMS Cutco/Vector Distinguished Educator Award, the 2010 Lifetime Achievement Award in Retailing (AMA Retailing SIG), and in 2005 the Lifetime Achievement in Behavioral Pricing Award (Fordham University, November 2005). He is a Distinguished Fellow of the Academy of Marketing Science. He was ranked first in the marketing field in terms of publications in the top-six marketing journals during the 1991–1998 period and again for the 2000–2007 period. He ranked eighth in terms of publications in JM and JMR during the 2009–2013 period and ranked seventh in terms of publications in the *Journal of Public Policy & Marketing* for the period 1992–2001. He was also ranked first in terms of publications and third in citations for pricing research for the time period 1980–2010 in 20 marketing and business publications. He has served as VP, research and conferences, American Marketing Association Academic Council (1999–2001), and as VP, development for the Academy of Marketing Science (2000–2002). He was co-editor of *Journal of Retailing* from 2001 to 2007. He co-chaired the 1993 Academy of Marketing Science Conference, the 1998 Winter American Marketing Association Conference, the 2001 AMA doctoral consortium, the American Marketing Association 2006 Summer Educators Conference, the 2011 DMEF research summit, and the 2012 and 2015 AMA/ACRA Retailing Conference.

Professor Grewal has published over 140 articles in journals such as the *Journal of Retailing, Journal of Marketing, Journal of Consumer Research, Journal of Marketing Research, Journal of Consumer Psychology, Journal of Applier Psychology,* and *Journal of the Academy of Marketing Science,* as well as other journals. He currently serves on numerous editorial and advisory review boards, such as the *Journal of Retailing, Journal of Marketing* (area editor), *Journal of Marketing Research, Journal of Consumer Psychology, Journal of the Academy of Marketing Science* (area editor), *Academy of Marketing Science Review, Journal of Interactive Marketing, Journal of Business Research,* and *Journal of Public Policy & Marketing.* He has over 35,000 citations based on Google scholar.

He has won a number of awards for his teaching: 2005 Sherwin-Williams Distinguished Teaching Award, Society for Marketing Advances; 2003 American Marketing Association Award for Innovative Excellence in Marketing Education; 1999 Academy of Marketing Science Great Teachers in Marketing Award; Executive MBA Teaching Excellence Award (1998); School of Business Teaching Excellence Awards (1993, 1999); and Virginia Tech Certificate of Recognition for Outstanding Teaching (1989). He has won numerous awards for his research: 2016 *Journal of Marketing* Sheth Award; William R. Davidson *Journal of Retailing* Best Paper Awards 2010, 2012, and 2016; Luis W. Stern Awards 2011 and 2015 (AMA IO Sig); William R. Davidson *Journal of Retailing* Honorable Mention Awards 2010 and 2011; Babson College Faculty Scholarship Award (2010 and 2015); University of Miami School of Business Research Excellence Award for the years 1991, 1995, 1996, and 1998; Best Services Paper Award (AMA Services SIG 2002); Stanley C. Hollander Best Retailing Paper (AMS 2002 and 2008); and M. Wayne DeLozier Best Conference Paper (AMS 2002 and 2008). He also received Best Reviewer Awards (*Journal of Retailing* 2008, *Journal of Marketing* 2014), best area editor (*Journal of the Academy of Marketing Science* 2016), and a Distinguished Service Award (*Journal of Retailing* 2009).

Professor Grewal has taught executive seminars and courses and/or worked on research projects with numerous firms, such as Dell, ExxonMobil, IRI, Radio Shack, Telcordia, Khimetriks, Profit-Logic, McKinsey, Ericsson, Motorola, Nextel, FP&L, Lucent, Sabre, Goodyear Tire & Rubber Company, Sherwin-Williams and Asahi. He has delivered seminars in the United States, Europe, Latin America, and Asia. He has also served as an expert witness and worked as a consultant on numerous legal cases.

Michael Levy

Courtesy of Michael Levy

Michael Levy, PhD (Ohio State University), is the Charles Clarke Reynolds Professor of Marketing Emeritus at Babson College and CEO of RetailProf LLC. He received his PhD in business administration from The Ohio State University and his undergraduate and MS degrees in business administration from the University of Colorado at Boulder. He taught at Southern Methodist University before joining the faculty as professor and chair of the marketing department at the University of Miami.

Professor Levy received the inaugural ACRA Academic Lifetime Achievement Award presented at the 2015 AMA/ACRA (American Marketing Association/American Collegiate Retailing Association) Triennial Conference; was recognized for 25 years of dedicated service to the editorial review board of the *Journal* *of Retailing* in 2011. He won the McGraw-Hill Corporate Achievement Award for Grewal–Levy *Marketing 2e* with Connect in the category of excellence in content and analytics (2010); Revision of the Year for *Marketing 2e* (Grewal–Levy) from McGraw-Hill/Irwin (2010); the 2009 Lifetime Achievement Award, American Marketing Association, Retailing Special Interest Group (SIG); the Babson Faculty Scholarship Award (2009); and the Distinguished Service Award, *Journal of Retailing* (2009) (at winter AMA).

He was rated as one of the best researchers in marketing in a survey published in *Marketing Educator* (Summer 1997). He has developed a strong stream of research in retailing, business logistics, financial retailing strategy, pricing, and sales management. He has published over 50 articles in leading marketing and logistics journals, including the *Journal of Retailing, Journal of Marketing, Journal of the Academy of Marketing Science,* and *Journal of Marketing Research*. He has served on the editorial review boards of the *Journal of Retailing, Journal of the Academy of Marketing Science, International Journal of Physical Distribution and Materials Management, International Journal of Business Logistics, ECR Journal, European Business Review,* and has been on the editorial advisory boards of *European Retail Research* and the *European Business Review.* He is co-author of *Retailing Management,* 9e (2014), the best-selling college-level retailing text in the world. Professor Levy was co-editor of the *Journal of Retailing* from 2001 to 2007. He co-chaired the 1993 Academy of Marketing Science conference and the 2006 summer AMA conference.

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

New to the Sixth Edition

Some exciting new additions to the Sixth Edition!

Chapter 1, "Overview of Marketing," starts with a discussion of one of the world's most successful chocolate brands, Godiva, which is in keeping with this edition's cover theme—how chocolate has gone from a commodity to a high-value branded product through marketing. The Superior Service, Adding Value, Social & Mobile Marketing, and Ethical & Societal Dilemma boxes now cover such new topics as in-flight WiFi, Whole Foods purpose-based marketing, the growth of mobile advertising, and free fruit offered by supermarkets to individuals shopping with children. A new section on marketing analytics is also accompanied in other chapters by new Marketing Analytics boxes. In this chapter the Marketing Analytics box discusses how Starbucks uses analytics to determine new store locations. Finally the chapter closes with a new case study on the global chocolate market, again in keeping with this edition's cover theme on how marketing has added value to the chocolate industry.

Chapter 2, "Developing Marketing Strategies and a Marketing Plan," opens with a discussion on PepsiCo, weaving in a comparison between PepsiCo and Coca-Cola throughout the chapter. We introduce a new Superior Service box highlighting Amazon's new home-service option, as well as a new Ethical & Social Dilemma box examining Volkswagen's Dieselgate scandal. The new Marketing Analytics box covers Google's predictive analytics. In addition, the chapter ends with a new case study on the coffee wars between Starbucks, Dunkin' Donuts, and McDonald's.

Chapter 3, "Social and Mobile Marketing," begins with a new opener on how Under Armour has successfully used social media in its marketing campaigns. The chapter also features a new section that details the wheel of social media engagement. The wheel of engagement highlights the information, connected, network, dynamic, and timeless effects of social media. The chapter also includes a new Adding Value box describing how Mercedes-Benz uses LinkedIn, an Ethical & Societal Dilemma box on how Disney appeals to moms, and two new Marketing Analytics boxes: one that covers eHarmony's analytics and the other on how Twitter and Billboard are teaming up to create real-time top music lists.

Chapter 4, "Conscious Marketing, Corporate Social Responsibility, and Ethics," is re-titled to reflect a new section on conscious marketing, which argues that firms have a sense of purpose that encompasses four key principles: (1) recognizing marketing's greater purpose, (2) considering stakeholders and their interdependence, (3) conscious leadership and its role in creating a corporate culture, and (4) understanding that decisions are ethically based. Chapter 4 also includes a new opener on the TOMS shoes company, a new Marketing Analytics box on how Kellogg's uses analytics to address GMO concerns, and a new Social & Mobile Marketing box on how cell phones are being used to help customers at the bottom of the pyramid.

Chapter 5, "Analyzing the Marketing Environment," starts with a discussion of Panera Bread's new clean menu. The chapter includes a new Superior Service box on CVS's mobile MinuteClinic app and a new Marketing Analytics box that highlights Netflix's predictive analytics. It also includes a new Adding Value box on Google's self-driving car.

Chapter 6, "Consumer Behavior," begins with a discussion of Nike's partnership with the Weather Channel and how it is using the Weather Channel app to advertise. A new Marketing Analytics box highlights how H&R Block uses analytics to create new tax services. A new Ethical & Societal Dilemma box discusses the allegations of unethical practices by pharmaceutical firms.

Chapter 7, "Business-to-Business Marketing," starts with an interesting application of a B2B market—how Amazon Business serves its partners. The chapter also includes two new boxes: Marketing Analytics on cloud computing and Adding Value on Xerox's fashion show to sell its latest printer. The chapter also includes a new case study on Staples' B2B business.

Chapter 8, "Global Marketing," examines how companies that either market the same products globally or have to change their products for the global market have different challenges from those that operate only in domestic markets. The new opener highlights the challenges faced by Netflix as it expands to the global economy. New examples include Chanel and how they are addressing the exchange rate in China, as well as Porsche's and Marks & Spencer's marketing fumbles when advertising to the Chinese market.

Chapter 9, "Segmentation, Targeting, and Positioning," opens with a discussion of how ABC Family's segmentation strategy has influenced its recent rebranding effort. A new Marketing Analytics box features Starbucks' wildly popular mobile app, and a new Superior Service box highlights how hotels leverage their proximity to universities. The chapter also includes a new case study on Mercedes-Benz's marketing strategy.

Chapter 10, "Marketing Research," begins with a discussion about how research has influenced the lingerie company Adore Me to use plus-sized models. A new Superior Service box explains how universities analyze usage data to identify when students use on-campus gyms to improve their college experience. Finally, the chapter concludes with a case study on how the YMCA is redefining itself.

Chapter 11, "Product, Branding, and Packaging Decisions" includes the following new boxes: Adding Value about the latest entry-level luxury cars, Marketing Analytics that discusses how Macy's uses analytics to determine its assortment, and Ethical & Societal Dilemma that highlights how Mars, Inc. is moving toward sugar labeling on its candy products. This chapter concludes with a new case study describing how Birkenstock has become a fashion brand.

Chapter 12, "Developing New Products," begins with a discussion of Xiaomi's affordable smartphones in Asia; a new Adding Value box explores how Disney licenses its movies and characters to toy companies; a new Ethical & Societal Dilemma box discusses concerns about the rise in the popularity of drones; a new Marketing Analytics box focuses on GM's use of big data to develop new cars and features; and a new Adding Value box features SkinnyPop snacks.

Chapter 13, "Services: The Intangible Product," opens with a new vignette about lululemon's new flagship store in New York City, which is designed to provide consumers with exceptional customer service. New boxes include Adding Value about Pepsi's new Kola House restaurant and Marketing Analytics about Kroger's use of analytics to determine how to reduce wait times during checkout. A new case study highlights the differences among Uber, Lyft, and traditional taxis.

Chapter 14, "Pricing Concepts for Establishing Value," describes pricing concepts using new examples from Coca-Cola in an Ethical & Societal Dilemma box, Amazon in a new Adding Value box, and airline ticket pricing in a Marketing Analytics box.

Chapter 15, “Strategic Pricing Methods,” begins with a discussion of Disney’s new surge pricing at its theme parks. Updated examples include two new Ethical & Societal Dilemma boxes: one about how Apple is conspiring with publishers to raise the price of e-books, and another about the gray market for luxury goods. Finally, the chapter ends with a new case study on the pizza industry, focusing specifically on Papa John’s, Little Caesars, Domino’s, Pizza Hut, and local pizzerias.

Chapter 16, “Supply Chain and Channel Management,” opens with a vignette on IKEA’s innovations in its supply chain. New boxes in this chapter include: Marketing Analytics on Amazon’s anticipatory shipping, Ethical & Societal Dilemma on how consumer demands for organic products is affecting the supply chain, and Adding Value on e-tailing in the United States versus India.

Chapter 17, “Retailing and Omnichannel Marketing,” begins with a discussion of a retail innovator–Amazon. It includes a new Superior Service box on how Burberry is seeking to access its customers directly, a new Marketing Analytics box discussing FreshDirect, a new Social & Mobile Marketing box detailing IKEA’s online and in-store retailing strategies, and a new case study about how Macy’s is taking initiatives to maintain its competitive advantage.

Chapter 18, “Integrated Marketing Communications,” starts with Pepsi’s emoji campaign to illustrate how integrated marketing communications is at the forefront of marketing. New boxes: Social & Mobile Marketing describing how Domino’s uses Snapchat for a marketing campaign, Adding Value about Pepsi’s endorsement on the television show *Empire*, Ethical & Societal Dilemma highlighting how companies take risks when developing their IMC programs, Adding Value on the partnership between the NBA and Kia, and Marketing Analytics describing how Puma uses Google’s analytics. The chapter concludes with a new case study on Pepsi’s Pepsi Max campaign.

Chapter 19, “Advertising, Public Relations, and Sales Promotions,” starts with McDonald’s “Our Food. Your Questions” campaign. There is a new Social & Mobile Marketing box on how mobile advertising is pushing out digital advertising, a new Adding Value box on the use of popular music in advertisements, and a new Marketing Analytics box on how CVS uses the data it collects from its loyalty program to target coupons to consumers.

Chapter 20, “Personal Selling and Sales Management,” begins with a discussion of IBM’s Watson. The chapter also includes a new Social & Mobile Marketing box highlighting how companies can use mobile CRM systems, and an Adding Value box on how selling Tupperware can empower women in Indonesia.

a letter from the authors

We are pleased to welcome you to the sixth edition of *Marketing*! Since the first edition, we have committed to emphasizing a basic, yet essential, theme: **Marketing adds value.** This theme comes through not only in our instructional features but also in our covers. With each edition's cover, we have featured a product that, because of marketing, has become more valuable in the eyes of consumers than it might have otherwise become. Last edition we featured coffee; in previous editions, we featured yogurt, water, and jeans. For this sixth edition, we feature chocolate. These are all familiar products that started out as commodities but became high-value branded products because of marketing.

How We Show That Marketing Adds Value

As with previous editions of *Marketing*, we continue to emphasize how marketing has evolved into its present-day, integral business function of creating value. We also focus on how firms maintain value and rely on value for establishing lasting relationships with their customers.

To keep students engaged with this theme, we offer the following features:

- **Adding Value**—illustrate how companies add value not only in providing products and services but also in making contributions to society.
- **Ethical & Societal Dilemmas**—emphasize the role of marketing in society.
- **Marketing Analytics**—feature companies that rely on sophisticated data analytics to define and refine their approaches to their customers and their markets.
- **Marketing Digitally**—illustrates how marketers successfully use digital media in their marketing campaigns and efforts.
- **Social & Mobile Marketing**—discuss how social media are used in marketing products.
- **Superior Service**—highlight the emerging role of the service industry.

How We Teach the Basics of Marketing

We understand that for students to appreciate discussions of how marketing adds value, they must first develop a basic understanding of key marketing principles and core concepts. In this effort, we believe students learn best when they see how a subject relates to them. Throughout this edition and all those prior, we provide numerous examples of how students engage in marketing activities every day of their lives—either as consumers or sellers of a product or service. In addition to providing the traditional study and reinforcement tools of most principles of marketing products, we also offer ways to help students think critically about and apply core concepts:

Chapter-Opening Vignettes focus on some of the marketplace challenges faced by such well-known companies as Under Amour, PepsiCo, TOMS, Netflix, Amazon, and others.

Marketing Applications encourage students to apply what they have learned to marketing scenarios that are relevant to their lives.

End-of-Chapter Cases help students develop analytical, critical-thinking, and technology skills.

Progress Checks throughout each chapter give students the opportunity to stop and consider whether their understanding of key concepts is progressing as it should.

Auto-graded Application Exercises in Connect (such as video cases, case analyses, and click-drags) challenge students to apply marketing concepts to real-life marketing scenarios, which fosters their critical-thinking skills in lecture and beyond.

Why We Believe in the Value of Marketing

Beyond teaching a principles of marketing course and developing a product to be taught, we also want to impress upon our students why marketing in and of itself is valuable. Marketing creates enduring and mutually valuable relationships between companies and their consumers. Marketing identifies what customers value at the local level in order to make it possible for firms to expand at the global level. Without marketing, it would be difficult for any of us to learn about new products and services. In fact, an understanding of marketing can help students find jobs after they finish school. If we can inspire this understanding of the value of marketing in our students, then we will have succeeded in demonstrating how *marketing adds value . . .* to their education, their careers, and to their lives.

Dhruv Grewal,
Babson College

Michael Levy,
Babson College

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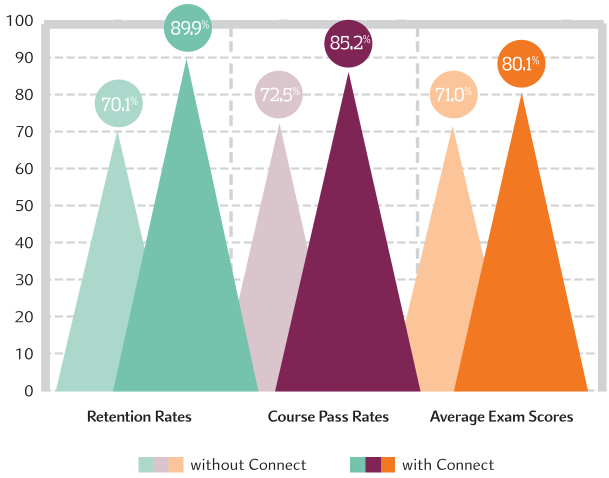

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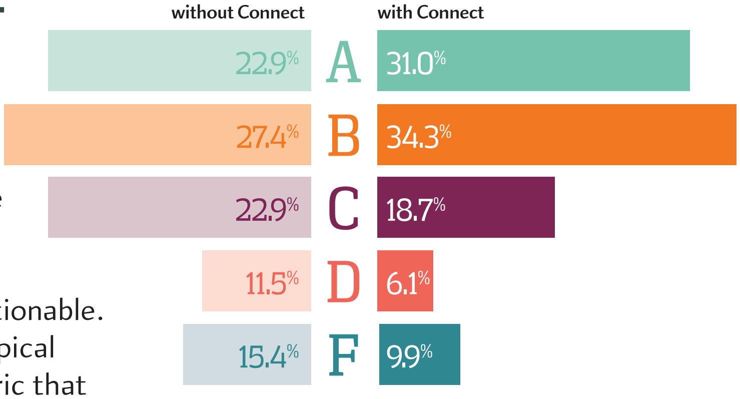

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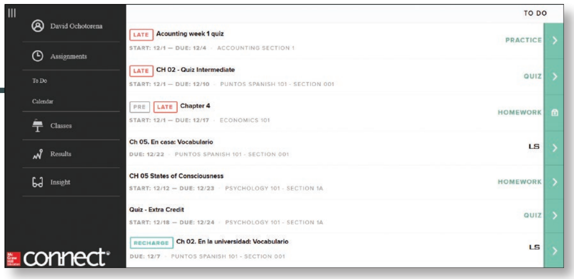

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START: 12/1 — DUE: 12/4 · ACCOUNTING SECTION 1
PRACTICE

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START: 12/1 — DUE: 12/10 · PUNTOS SPANISH 101 - SECTION 001
QUIZ

PRE LATE Chapter 4
START: 12/1 — DUE: 12/17 · ECONOMICS 101
HOMEWORK

Ch 05. En casa: Vocabulario
DUE: 12/22 · PUNTOS SPANISH 101 - SECTION 001
LS

CH 05 States of Consciousness
START: 12/12 — DUE: 12/23 · PSYCHOLOGY 101 - SECTION 1A
HOMEWORK

Quiz - Extra Credit
START: 12/18 — DUE: 12/24 · PSYCHOLOGY 101 - SECTION 1A
QUIZ

RECHARGE Ch 02. En la universidad: Vocabulario
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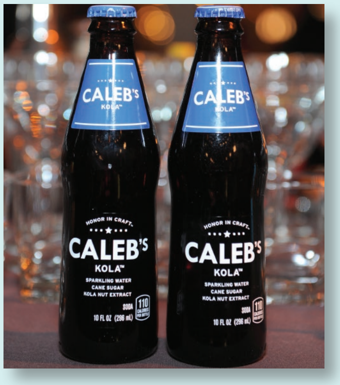

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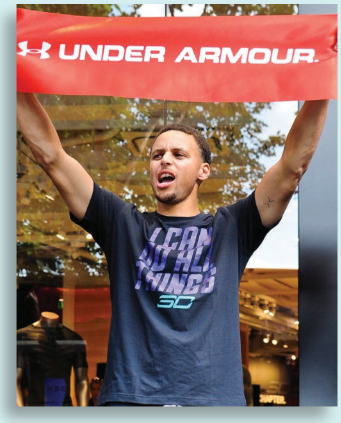

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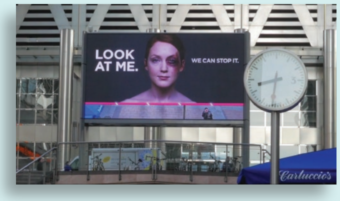

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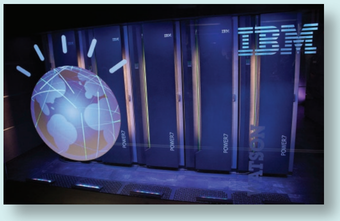
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SECTION 1

Assessing the Marketplace

Understanding the Marketplace

Targeting the Marketplace

Value Creation

Value Capture

Value Delivery: Designing the Channel and Supply Chain

Value Communication

ASSESSING THE MARKETPLACE

CHAPTER 1
Overview of Marketing

CHAPTER 2
Developing Marketing Strategies and a Marketing Plan

CHAPTER 3
Social and Mobile Marketing

CHAPTER 4
Conscious Marketing, Corporate Social Responsibility, and Ethics

CHAPTER 5
Analyzing the Marketing Environment

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

CHAPTER 1

OVERVIEW OF MARKETING

LEARNING OBJECTIVES

After reading this chapter, you should be able to:

LO1-1 Define the role of marketing in organizations.

LO1-2 Describe how marketers create value for a product or service.

LO1-3 Understand why marketing is important both within and outside the firm.

Nestled in their lovely and iconic little gold boxes, Godiva chocolates can spark the desires of nearly any chocolate lover, just by reminding them of the joy they are likely to experience from tasting the delicious, luxurious treats. It seems almost innate: think about Godiva, start to salivate in anticipation. But in fact, the appeal of Godiva chocolates, as well as every detail that we used to describe them in the first sentence of this opener, represents a nearly century-long marketing effort by a premium brand chocolatier that is determined to keep its customers happy and coming back for more.

When Pierre and Joseph Draps first started selling chocolate pralines in 1926, they insisted on the idea that "Chocolate is a dream."[1] Thus from the very start of the company, Godiva has aimed to create an image and an experience for consumers that is totally different from the humdrum of everyday existence. The chocolates

Smooth Coconut Truffle

© *Charley Gallay/Getty Images*

themselves are made with very high-quality ingredients.[2] In addition, Godiva introduces specific innovations and recipes for special occasions—from the Signature Lait that was created specifically to be handed out to guests at the 1939 theatrical release of *Gone with the Wind* to the Egérie Noir, a raspberry ganache treat created in honor of the company's 90th anniversary.[3] Collections featuring examples of its various editions highlight Godiva's longstanding and storied history; people who buy them can feel connected to a sense of both luxury and nostalgia.

Its packaging, high-quality gold boxes, also evokes luxury.[4] Whether consumers buy a single piece of chocolate as a treat for themselves or a 140-piece Gold Ballotin collection as an impressive gift for someone else,[5] the package is fancy and pretty, suggesting that the company values their purchase, no matter how large or small.

If they buy the treats from a small Godiva chocolatier, they also receive personal service when the salesperson wraps up their individually chosen treats with a gold bow. If they visit the expansive Godiva counter in Macy's flagship New York store, they can sample a vast variety of options, from soft serve ice cream to just-dipped strawberries encased in milk or dark chocolate.[6] If instead consumers want something a little more accessible, Godiva makes sure that prepackaged offerings are available in grocery stores. These mass-produced desserts are not quite so personalized, but they also are relatively less expensive than the high-end option.

Thus Godiva tries to make sure it has an option for virtually anyone—a less expensive, mass-produced version for shoppers who need a break from their daily chores, but also more expensive, delicately made, individualized options for those who regard excellent chocolate as a necessary indulgence. And with its golden boxes and high-end image, Godiva also has long guaranteed Valentines and gift givers that their presents would be appreciated and enjoyed if they splurged on the "good" candy.[7]

Although Godiva embraces its heritage as a Belgian company,[8] it also has fans and consumers around the world. Accordingly, it makes sure that people living anywhere in the world can access not only its products but also the stories and experiences that go along with those products. For example, it uses social marketing tools to tell stories about the five classically trained chefs, each with a unique and varied background, who take charge of developing new recipes.[9]

Thus, by adopting the various marketing methods, tactics, and recommendations that we describe throughout this book, Godiva has survived and thrived for nearly a century, while making sure that it has a strong foundation to last for decades more.

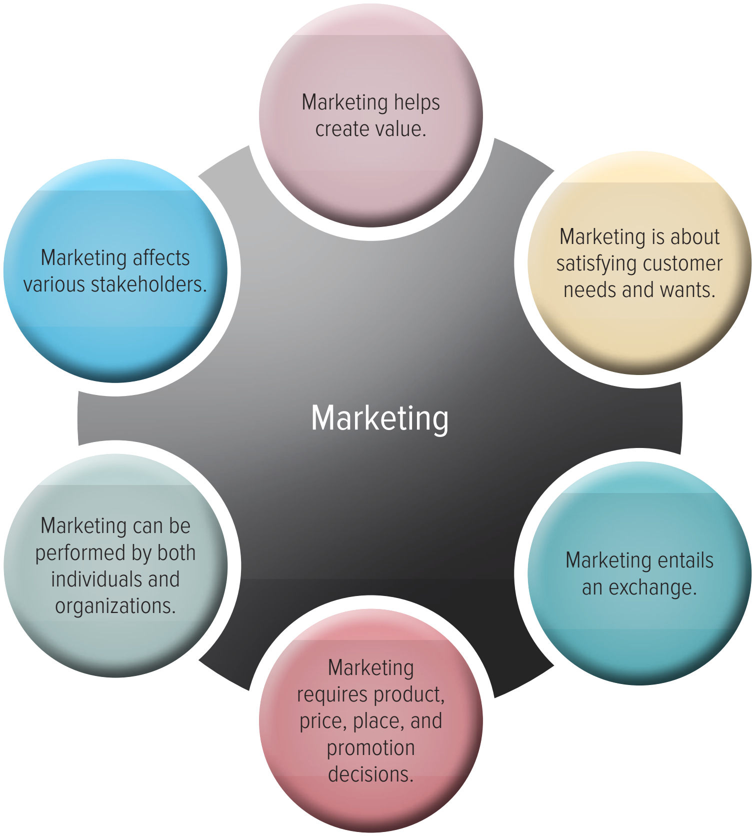
LO1-1 Define the role of marketing in organizations.

WHAT IS MARKETING?

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

The American Marketing Association (AMA) states that "**marketing** is the activity, set of institutions, and processes for creating, *capturing,* communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large."[10] What does this definition really mean? Good marketing is not a random activity; it requires thoughtful planning with an emphasis on the ethical implications of any of those decisions on society in general. Firms develop a **marketing plan** (Chapter 2) that specifies the marketing activities for a specific period of time. The marketing plan also is broken down into various components—how the product or service will be conceived or designed, how much it should cost, where and how it will be promoted, and how it will get to the consumer. In any exchange, the parties to the transaction should be satisfied. In our previous example, you should be satisfied or even delighted with the song you downloaded, and Apple should be satisfied with the amount of money it received from you. Thus, the core aspects of marketing are found in Exhibit 1.1. Let's see how these core aspects look in practice.

EXHIBIT 1.1 Core Aspects of Marketing


Marketing helps create value.
Marketing is about satisfying customer needs and wants.
Marketing entails an exchange.
Marketing requires product, price, place, and promotion decisions.
Marketing can be performed by both individuals and organizations.
Marketing affects various stakeholders.
Marketing

Some chocolate lovers prefer Hershey's over other brands because it is made in Hershey, Pennsylvania.

© Tim Shaffer/Reuters

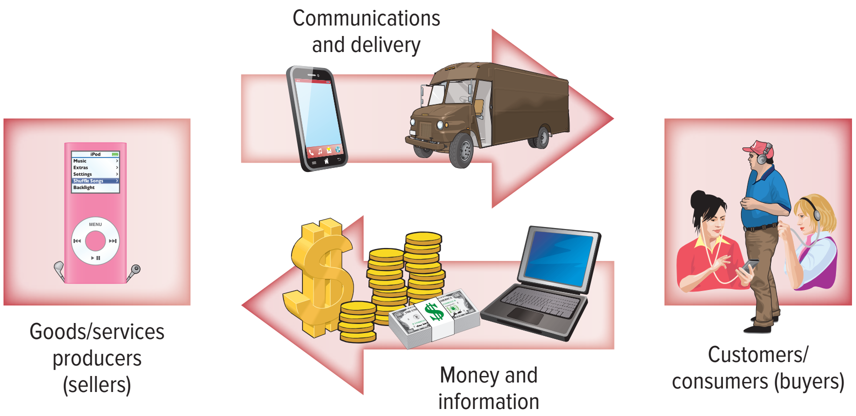
Marketing Is about Satisfying Customer Needs and Wants

Understanding the marketplace, and especially consumer needs and wants, is fundamental to marketing success. In the broadest terms, the marketplace refers to the world of trade. More narrowly, however, the marketplace can be segmented or divided into groups of people who are pertinent to an organization for particular reasons. For example, the marketplace for soft drinks may include most people in the world, but as Godiva and Hershey's battle for chocolate lovers, they divide the population into a host of categories: luxury versus cost-conscious, service-oriented versus self-service, those who purchase chocolates for a quick energy-boosting snack versus those who purchase it as a reward for a hard day's work or as a gift for a friend or loved one, and those who prefer "Made in America" versus those who prefer the illusion that their chocolates are made in Belgium (even though Godiva has manufacturing facilities in the United States). If you manufacture chocolate, you want to know for which marketplace segments your product is most relevant, then make sure you build a marketing strategy that targets those groups.

Marketing Entails an Exchange

Marketing is about an **exchange**—the trade of things of value between the buyer and the seller so that each is better off as a result. As depicted in Exhibit 1.2, sellers provide

EXHIBIT 1.2 Exchange: The Underpinning of Seller–Buyer Relationships


Communications and delivery
Goods/services producers (sellers)
Customers/ consumers (buyers)
Money and information

If you can't wait for an Amazon delivery of Godiva chocolates, go to one of its mall store locations and buy them in person!

© Steve Vidler/Alamy

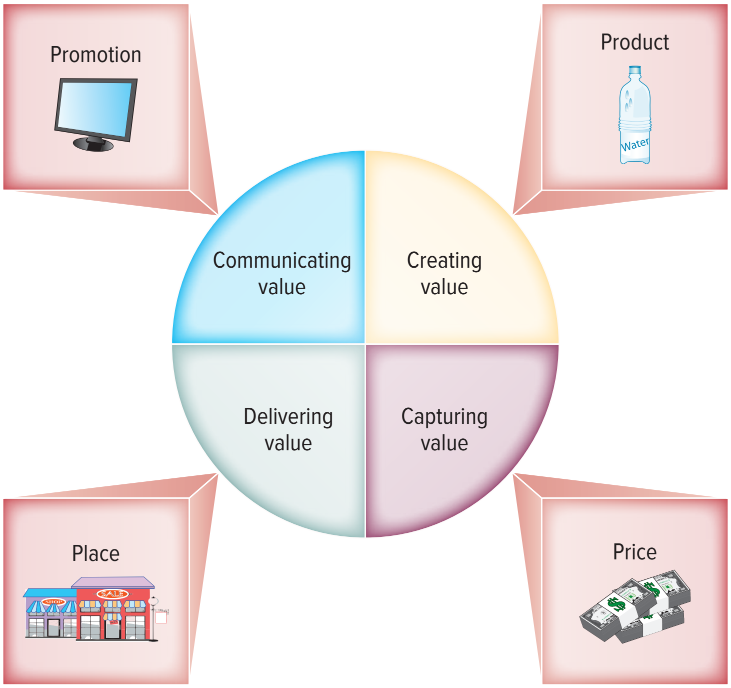
products or services, then communicate and facilitate the delivery of their offering to consumers. Buyers complete the exchange by giving money and information to the seller. Suppose you learn about a new Godiva chocolate from a friend's tweet, so you visit Godiva's website to check it out. From there you order a box from Amazon's website. Your billing information is already in the company's system, so you do not have to enter your credit card number or other information. Furthermore, Amazon creates a record of your purchase, which it uses, together with your other purchase trends, to create personalized recommendations of other luscious treats that you might like. Thus, Amazon uses the valuable information you provide to facilitate future exchanges and solidify its relationship with you. Nonetheless, not wanting to wait until tomorrow to receive your chocolates, you rush down to the Godiva store in the mall and buy some, consuming them all on your way home.

Marketing Requires Product, Price, Place, and Promotion Decisions

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

Product: Creating Value The first of the four Ps is product. Although marketing is a multifaceted function, its fundamental

EXHIBIT 1.3 The Marketing Mix



purpose is to create value by developing a variety of offerings, including goods, services, and ideas, to satisfy customer needs. Take, for example, chocolate. At one time, people purchased simple chocolates and cocoa from a local supplier and either ate it by itself or combined it with other ingredients at home. Imagine the night that a bunch of kids got together by a campfire and decided to make a sandwich by melting chocolate and marshmallows and holding the sweet, creamy, white and brown goop together with graham crackers—the night s'mores were born. Today, Hershey's and Mars make a range of chocolates and candies. Hershey's Chocolate candies include Almond Joy, Cadbury, Reese's, and more. Furthermore, Hershey's "sugar confectionery" products range from Jolly Rancher to Twizzlers, its owns Ice Breakers Bubble Yum Gum, a line of Hershey's chocolate and Reese's peanut butter baking goods, and snacks such as Mauna Loa mixed nuts.[12] Mars chocolate line of products includes 3 Musketeers, Milky Way, Snickers, and M&M's. However, Mars is not just in the chocolate business. It also owns Uncle Ben's; Wrigley products that include Double Mint and 5 gum; Life Savers; Altoids; drinks such as Dove hot chocolate; and even pet food, including Iams and Pedigree.[13] And these treats are available both online and through a plethora of retail outlets from grocery to convenience stores like 7-Eleven.

There is nothing like s'mores around a campfire to kindle one's interest in chocolate.

© Stephen Alvarez/National Geographic/Getty Images

Goods are items that you can physically touch. A bag of Godiva chocolate, Nike shoes, Pepsi-Cola, a Frappuccino, Kraft cheese, Tide, an iPad, and countless other products are examples of goods. As we describe at the start of this chapter, Godiva makes chocolates—but it adds value to its products by using fresh and interesting ingredients of the highest quality, packaging the chocolates in gold boxes, using personalized service in its boutiques, and creating a nostalgic historical and quality image through its various promotional outlets. Hershey's and Mars sell very good, affordable confections; Godiva sells an experience.

Unlike goods, **services** are intangible customer benefits that are produced by people or machines and cannot be separated from the producer. When people buy tickets—whether for airline travel, a sporting event, or the theater—they are paying not for the physical ticket stub but, of course, for the experience they gain, a lesson that JetBlue has taken to heart, as we describe in Superior Service 1.1. For people who like to pick out their chocolates one at a time, Godiva offers a full-service experience in their boutiques. Hotels, insurance agencies, and spas similarly provide services. Getting money from your bank, whether through an ATM or from a teller, is another example of using a service. In this case, cash machines usually add value to the banking experience because they are conveniently located, fast, and easy to use.

Many offerings in the market combine goods and services.[14] When you go to an optical center, you get your eyes examined (a service) and purchase new contact lenses

HERSHEY'S
HERSHEY'S
Cookies 'n' Chocolate
milk chocolate with cookie bits
SNICKERS
Mars
100% Delicious MARS Taste
45% Less Saturated Fat*
OFFICIAL SUPPORTER

Hershey's and Mars sell very good but affordable confections.

Left: © Dean Bertoncelj/Shutterstock RF; right: © Kevin Wheal/Alamy

Superior Service 1.1

A Service for Fliers, a Moneymaker for JetBlue Airlines: WiFi-Enabled Shopping in the Air[i]

There is a new retail channel taking off—literally. The "onboard, online retail business" refers to the options that more and more airlines offer passengers to shop through their mobile devices while they fly toward their destination. The retail channel relies on technology that enables airlines to offer WiFi access to customers and cater to customers' evident desire to buy things while flying.

According to JetBlue, which began offering WiFi-enabled flights at no charge as a service to customers, the expectation was that people would check their social media or maybe get some work e-mails sent. Instead, it found that many passengers on flights were visiting shopping websites and picking up new items to be delivered to their homes. Evidently, those kitschy in-flight catalogs that had long been stuck in the seat pockets, with their silly gifts and travel kits, had strong market appeal. When consumers could go online, they wanted the same functions of the in-flight retail catalogs paired with the conveniences of ordering and paying online.

In response, various players in the market are seeking to attract sales by the captive audience of airline passengers. For example, in a partnership with Amazon, JetBlue pushes purchases of Amazon content, or else encourages customers to invest in purchasing a new Prime membership, which enables them to stream the content for free. According to a JetBlue spokesperson, a "surprising number" of customers take advantage of this offer, readily signing up to pay the annual fee in return for the chance to stream *House of Cards* on their flight to the real Washington, DC, for example.

Most carriers charge passengers for the right to access the WiFi, whereas JetBlue continues to offer it for free, in the belief that it can get more people to use the service that way. That means more people are looking at the product and service offers for sale, and that means that the resulting purchases are more likely to make up for the costs of the free service offer.

JetBlue has enhanced its service experience by offering on-board WiFi.

© Blend Images/Alamy RF

But there is something of a cost for consumers—namely, the prevalence and clutter of advertising that pops up every time they go online while onboard. For some, the annoyance of the advertising is enough to put them off the idea of shopping. Others, though, would even consider paying for the right to see that sort of marketing in the air.

When you attend a Bruno Mars concert, you are paying for a service.

© Rich Polk/Clear Channel/Getty Images

(a good). If you attend a Bruno Mars concert, you can be enthralled by the world-class performance. To remember the event, you might want to pick up a shirt or a souvenir from the concert. With these tangible goods, you can relive and remember the enjoyment of the experience over and over again.

Ideas include thoughts, opinions, and philosophies; intellectual concepts such as these also can be marketed. Groups promoting bicycle safety go to schools, give talks, and sponsor bike helmet poster contests for the members of their primary market—children. Then their secondary target market segment, parents and siblings, gets involved through their interactions with the young contest participants. The exchange of value occurs when the children listen to the sponsors' presentation and wear their helmets while bicycling, which means they have adopted, or become "purchasers," of the safety idea that the group marketed.

Marketing Analytics 1.1

Location, Location, Analytics: Starbucks' Use of Data to Place New Stores[ii]

By now, nearly everyone on the planet recognizes the green mermaid logo that proudly sits atop every Starbucks sign, poster, and cup. The ubiquitous coffee giant maintains more than 22,000 locations in more than 66 countries. But its growth has not been without a few stumbles and bumps in the road. For example, in the last decade, hundreds of newly opened stores had to be closed because of their poor performance. In analyzing how the company got to that point, Patrick O'Hagan, Starbucks' manager of global market planning, explained that many of the stores never should have opened. However, the staff in charge of these location choices had been inundated with so much data, they were unable to use them to make profitable decisions. Thus, the Starbucks story reveals a great deal about the importance of data analytics.

Starbucks began using Esri's Geographic Information Systems (GIS) technology as far back as the 1990s. But it has perfected its applications of the GIS-provided predictive analytics only recently. Currently, it is using the information gleaned from the technology to plan 1,500 new locations. With the system's ArcGIS Online tool, Starbucks obtains a graphical summary of the GIS data in map form. These data include both location information and demographic details, which the software analyzes according to pertinent criteria. The applications allow Starbucks' staff to pinpoint ideal locations that are likely to attract substantial traffic and thus boost chainwide sales, such that "ArcGIS allows us to create replicable consumer applications that are exactly what they need." Because the GIS technology is accessible through desktops as well as mobile devices, location experts in the field also can combine the high-tech insights with their real-world observations.

STARBUCKS COFFEE

Starbucks uses Geographic Information Systems (GIS) technology to pinpoint ideal locations and determine which kinds of stores to open in those locations.

© Bhandol/Alamy

Not only does the GIS technology help Starbucks determine the ideal locations for new stores, but it also can enable the company to decide which kinds of stores to open. For example, many of the 1,500 planned new stores will feature drive-through windows; others will be smaller stores, strategically placed to provide the greatest customer convenience. The new approach already has been proving effective, according to results that show that the most recently opened stores, particularly those in the Americas, consistently are producing great returns and exceeding hurdle rates.

Price: Capturing Value The second of the four Ps is price. Everything has a price, although it doesn't always have to be monetary. Price, therefore, is everything the buyer gives up—money, time, and/or energy—in exchange for the product.[15] Marketers must determine the price of a product carefully on the basis of the potential buyer's belief about its value. For example, JetBlue Airlines can take you from New York to Denver. The price you pay for that service depends on how far in advance you book the ticket, the time of year, and whether you want to fly coach or business class. If you value the convenience of buying your ticket at the last minute for a ski trip between Christmas and New Year's Day and you want to fly business class, you can expect to pay four or five times as much as you would for the cheapest available ticket. That is, you have traded off a lower price for convenience. For marketers, the key to determining prices is figuring out how much customers are willing to pay so that they are satisfied with the purchase and the seller achieves a reasonable profit.

Place: Delivering the Value Proposition The third P, place, represents all the activities necessary to get the product to the right customer when that customer wants it. As Marketing Analytics 1.1 describes, for Starbucks, that means expanding its storefronts constantly and proactively, so that it is easy for caffeine junkies to find their fix. Creative locations, such as kiosks at the baggage claim in airports or small booths in grocery stores, represent the chain's effort to improve its offering on this dimension of the marketing mix.