



PEARSON NEW INTERNATIONAL EDITION

Marketing
Defined, Explained, Applied
Michael Levens
Second Edition

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The Meaning of **Marketing**

The Meaning of **Marketing**

Chapter Overview Everyone has some experience with marketing. Whether or not you have worked in a marketing position in an organization, you have certainly been exposed to advertising, evaluated sales offers, made purchase decisions, and promoted yourself in some capacity, such as applying to a college or university. These, and many other aspects of everyday life, place you in marketing situations.

Of course, understanding marketing requires much more than simply recalling and becoming aware of everyday experiences. Understanding marketing requires a familiarity with the strategies that businesses use to create awareness and interest in their products and services. Understanding marketing also requires a familiarity with the processes that consumers knowingly and unknowingly follow when evaluating and making purchase decisions. In addition, understanding marketing requires that you have knowledge of the various activities that marketing comprises, including those tasks that promote and enable transfer of ownership, enable flow of goods from manufacturer to consumer, and help facilitate completion of the first two categories of tasks. Understanding marketing also requires familiarity with disciplines, such as economics and psychology, that have provided context to what is currently known as marketing. This chapter is designed to provide a foundation for your study of marketing by explaining the meaning of marketing.

▼ Chapter **Outline**

Marketing

← **Objective 1.** What is marketing?

Marketing Concept

← **Objective 2.** What is the marketing concept? How has marketing changed?

- **Evolution of Marketing: Early Years Until 1950**
- **Evolution of Marketing: 1950–Present**
- **Evolution of Marketing: Social Responsibility**

Marketing Functions

← **Objective 3.** What are marketing functions? Who performs them?

- **Internal Marketing Participants**
- **External Marketing Participants**

MARKETING

DEFINED *Marketing is an organizational function and a collection of processes designed to plan for, create, communicate, and deliver value to customers and to build effective customer relationships in ways that benefit the organization and its stakeholders.¹*

EXPLAINED

Marketing

Marketing is a distinct activity within an organization, generally referred to as the marketing department. Marketing is also a set of tasks, such as assembling, pricing, and promoting, which may or may not be performed by the marketing department, that result in products, services, ideas, and other tangible and intangible items. Those items, in turn, produce profits or achieve some other stated goals for an organization and its stakeholders, including shareholders, employees, or donors. Profits or other organizational goals are achieved by creating value for consumers. The creation of **value** is the realization of benefits that are at parity or that exceed the cost of products, services, or other items. Customers, such as students, parents, professors, and the rest of society, search for value on a daily basis when making purchase decisions.

Marketing has grown from roots in economics, psychology, sociology, and statistics. One important concept that marketing has borrowed from the study of economics is the idea of utility. **Utility** is the satisfaction received from owning or consuming a product or service. Utility, in a marketing sense, is the value that consumers attach to that marketer's products or services. Supply and demand for products and services influence price, production costs influence supply, and utility influences demand. The utility that consumers attached to BMW products, and the subsequent increase in demand, influenced the German automaker to add U.S.-based production in Spartanburg, South Carolina, in 1994 and to greatly expand the manufacturing facility in 2006. Over 1.5 million BMWs have been produced in the automaker's first plant outside of Germany. Consumers are the ultimate adjudicators of utility. If consumers perceive that a particular product or service has utility, then they are inclined to consider purchasing that product or service.

A **need** is a necessity to meet an urgent requirement. A **want** is a desire for something that is not essential. For instance, a person has a need for food, but a person simply wants ice cream. There are strict definitions for wants and needs. However, businesses often use marketing to transform a want into a *perceived* need for a particular product or service. Businesses can increase **demand**, the financial capacity to buy what a person wants, for that business's brand of products or services through marketing activities such as advertising. A **brand** is a promise to deliver to consumers specific benefits associated with products or services.

The brand can contrast the products or services of one company with the products or services of another company and, through effective marketing, command a perception of greater value that can lead to higher sales revenue and profits.

APPLIED

Marketing

In practice, marketing is much more than simply selling or advertising. Marketing influences you as a consumer through your current and future career choices, and through the economy. Businesses create value through their offerings, communicate that value to consumers, and then deliver value in exchange for money from consumers. Marketing applies to more than just products or services, however. Marketing extends to a variety of tangible and intangible items, including the following:

- Products
- Services
- People
- Places
- Causes
- Events
- Ideas



Facebook is a social networking utility created in 2004. Currently, Facebook has about 500 million users around the world and allows contacts with friends and colleagues to communicate and share photos, videos, and other links. People register with an e-mail address and join one or more networks based on companies, schools, or regions. In addition to allowing people to connect with each other, the site also has evolved as a marketing tool for individuals and businesses. The Facebook platform allows the hosting of events, such as the 2008 Presidential debates in partnership with ABC News, and also allows advertisements to be placed on networks. Target enjoyed considerable success through its involvement with Facebook. Target took its hip image to Facebook by sponsoring a page identified as the "Dorm Survival Guide." Target made considerable preparation for the page, including an effort to understand how users interact on Facebook. Based on that insight, discussion groups, decorating tips, and pictures of dorm rooms complemented the product information.

Target's initial campaign registered over 27,000 users and helped increase sales over 6% from the previous year. Target has continued to partner with Facebook in social media activities. The Target Rounders program uses college-age students to promote the company on Facebook in return for discounts and incentives.²

PHOTO: Lencscap/Alamy Image.

EXAMPLE MARKETING

Try and rent this anywhere else.

Hertz has done it again. Exclusively built for Hertz, the Corvette ZH3 brings the mighty Corvette to even higher standards. Sporting a six-speed paddle-shift transmission, the ZH3 makes the most of the dual mode exhaust and 436-horsepower. And, these impressive features are wrapped inside a uniquely packaged Corvette that features Hertz's iconic yellow and black, colors that have a storied past in sports car history.

Production of the ZH3 will be limited to 500 models, making it an instant classic. It's another one of the many exciting cars that you can reserve from the Hertz Fun Collection. And like all Fun Collection vehicles, it comes equipped with SIRIUS Satellite Radio. To reserve the Corvette ZH3 call 1-800-654-3131 or visit hertz.com. Now is your chance to get in the driver's seat of sports car history. **It's another reason why we're Hertz. They're Not.**

SIRIUS
SATELLITE RADIO

Hertz
Fun Collection

hertz.com
Fun Collection vehicles available at select major market locations in the U.S.
FOR YOUR INFORMATION: Restrictions apply. Not all vehicles available at all locations. SIRIUS not available in Hawaii and Alaska. SIRIUS is a registered trademark of Sirius Satellite Radio, Inc.

The Corvette ZH3, offered exclusively by Hertz as part of its "Fun Collection" vehicle rental portfolio in the United States, has both product and service characteristics. The vehicle is a product, but the rental is a service. The Hertz Corporation, the world's largest general-use car rental brand with 8,100 locations in 147 countries, creates value for its customers in a variety of ways. Some of those methods include working with General Motors, manufacturer of the Chevrolet Corvette, to offer a product that Hertz's competitors do not. Few people might rent the 436-horsepower Corvette ZH3, but the Hertz vehicle rental portfolio also includes subcompacts to minivans to luxury cars, and those choices are presented to consumers as innovative and contemporary.³

PHOTO: © 2010 Hertz System, Inc. Hertz is a registered service mark and trademark of Hertz System, Inc.

>> END EXAMPLE

Products include items often used or consumed for personal use, such as shavers or ice cream, and items that are consumed by businesses or used to produce items that are resold, such as raw materials or components. Services include items that are used and not retained by the consumer, for example, a massage or a haircut, and items that are used and not retained by businesses, such as repair or maintenance services.

Beyond products and services, many other items can also be marketed. People such as celebrities, athletes, and politicians are engaged in marketing themselves and building their own brands. Similarly, as you build your career, you will constantly be marketing yourself to others. Places, from London to New York, can also be marketed. Place marketing can be designed to accomplish one of a wide variety of objectives, such as introducing potential visitors to a place with which they may not be familiar, reinventing a location to stand for something different from what it is currently known as, or encouraging more frequent visits. Causes, including many not-for-profit organizations such as the Humane Society, museums, and art institutes, are also marketed to potential donors and to those who may use the services of the not-for-profit. Events, such as the Olympics, the Super Bowl, and the World Cup, market themselves, but also serve as marketing platforms for other businesses. Ideas, such as anti-littering campaigns and political views, as well as concepts and messages, are also marketed.

MARKETING Concept

DEFINED *The marketing concept is an organizational philosophy dedicated to understanding and fulfilling consumer needs through the creation of value.*

EXPLAINED

Marketing Concept

Marketing, as stated earlier, involves the creation of value that results in effective customer relationships. **Customer relationships** are created when businesses and consumers interact through a sales transaction of a product or service and continue that relationship based on ongoing interaction between the business and the customer. The management of customer relationships, commonly referred to as **customer relationship management (CRM)**, involves those elements of business strategy that enable meaningful, personalized communication between businesses and customers. CRM is composed of activities that are used to establish, develop, and maintain customer relationships. For example, customer-generated reviews can create a feedback mechanism and reinforce a strong relationship between businesses and customers. The understanding and interaction with customers becomes increasingly important as customers have greater access to information about different choices. By implementing CRM, a business is committing to understanding customer lifetime value. **Customer lifetime value** includes the projected sales revenue and profitability that a customer could provide to a firm. If customer relationships serve as the foundation for marketing activities, then a business is practicing the marketing concept.

APPLIED

Marketing Concept

Although generally considered a contemporary idea, the marketing concept has been used for many years, in practice, if not in name, by businesses trying to distinguish themselves from their competition by focusing on the customer. L.L.Bean founded its business in 1912 by referring to the customer as “. . . the most important person ever in this office—in person or by mail.” L.L.Bean developed a marketing philosophy based on customer service and marketed a guarantee to provide “. . . perfect satisfaction in every way.”⁴ Currently, many businesses, as well as churches, schools, and state and local tourism entities, practice

the marketing concept by focusing on fulfilling the expectations of their customers.

EXAMPLE MARKETING CONCEPT



Missouri began an advertising campaign in 2008 with its central message: “Close to home. Far from ordinary.” This message is designed to attract visitors from nearby states. The idea is that visitors will drive to Missouri and experience the wide range of activities available. The message concentrates on the actual experience of travel, and not simply the destination. Practicing the marketing concept, this advertising has targeted specific groups of individuals, including families, young women, and baby boomers. By targeting certain groups, Missouri can create tailored messages that in turn create additional value that surpasses the value that might be obtained by communicating a broader message to the entire population.



Contrast Missouri's advertising campaign to the Las Vegas advertising campaign. Look at the two ads, and you can see that they appeal to different groups. After Las Vegas moved away from previous advertising as a family destination, the "what happens here, stays here" advertising campaign clearly establishes Las Vegas as an adults-only playground. The campaign focuses on the core benefit of a wide range of adult activities and targets those who place value on those activities. Las Vegas's advertising campaign even inspired the 2008 movie *What Happens in Vegas*.⁵

PHOTO: Missouri Tourism Commission.

>> END EXAMPLE

Evolution of Marketing: Early Years Until 1950

Sales and marketing activities have existed in varying forms throughout time, from ancient civilizations through the modern era. Traditionally, the marketing emphasis was placed on the production of crafts, agricultural products, and other goods for sale through local markets. Over time, distinctive marks and

designs such as cattle brands were associated with these products to distinguish one seller from another.

The early years of American marketing included advertisements that were placed in newly created media, such as newspapers and magazines, as well as the formation of the first advertising agency in the United States. In 1704, the *Boston News-Letter* published the first newspaper advertisement offering items for sale. The advertisement was for real estate on Oyster Bay, Long Island.⁶ The first American magazine ads were published in Benjamin Franklin's *General Magazine* in 1742.⁷ The first advertising agency was opened in Philadelphia in 1843.⁸

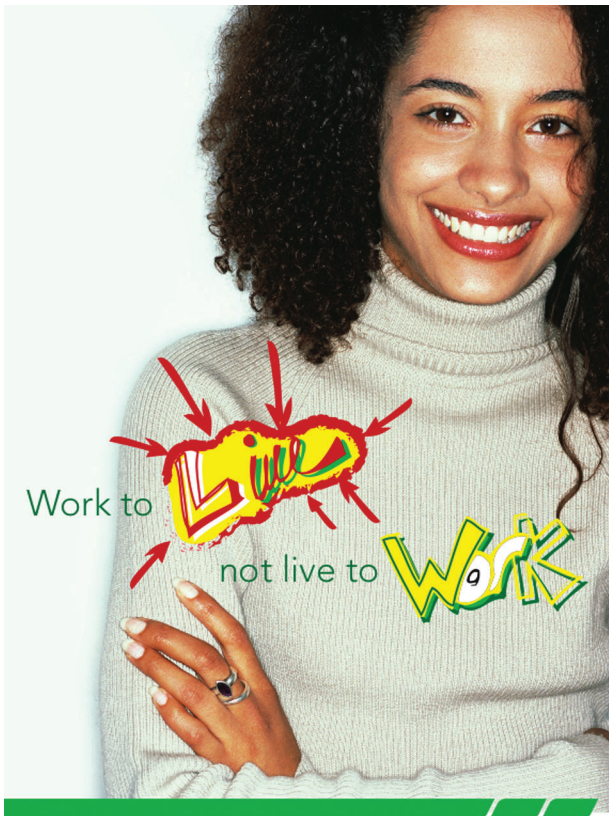
Sales opportunities in the United States expanded rapidly after the Revolutionary War as individuals moved across the country selling products such as clocks and books.⁹ These sales roles evolved to salespeople managing orders for newly formed manufacturing companies of the nineteenth century.¹⁰

Through the early part of the twentieth century, both marketing and sales activities were designed to support production. Products were often created, and then customers were sought. The **production orientation** reflects a business focus on efficient production and distribution with little emphasis on any marketing strategy. This period existed roughly from the mid-1800s until the 1920s. With the advent of the Great Depression in the late 1920s and early 1930s, and the resulting increase in product inventory, the sales function became a primary activity and was considered synonymous with marketing. A **sales orientation** reflects a business focus on advertising and personal selling to create demand and move product inventory. This period lasted from the 1930s into the 1950s.

Evolution of Marketing: 1950–Present

From the 1950s into the 1980s, companies generally focused on the needs and wants of consumers more than they did in prior years. A **consumer orientation** reflects a business focus on satisfying unmet consumer needs and wants. Also in the 1980s, businesses began to consider not only consumers but also suppliers as sources of value-based relationships. A **relationship orientation** reflects a business focus on creating value-added relationships with both suppliers and consumers. A value-added relationship is much more than buying and selling. The idea of value-added relationships involves business practices that support long-term relationships. These relationships may incur short-term costs, such as additional customer support and enhanced after-sales service, but are intended to reinforce the value of the product or service, relative to the competition.

EXAMPLE EVOLUTION OF MARKETING: 1950–PRESENT



KELLY
Talent at work

Kelly Services, operating in 37 countries and territories and providing employment to over 750,000 employees annually, provides business services, such as temporary staffing services and outsourcing solutions, and consumer services, such as temporary and full-time job placement. Kelly’s marketing efforts are targeted both to employers and to workers who are unemployed or looking to change careers. Kelly’s “work to live, not live to work” advertising is targeted primarily toward workers and creates value for them by identifying with an individual’s desire to balance work and home life. Kelly’s communication

to employers is designed to address specific needs in automotive, contact center, education, electronic assembly, engineering, finance and accounting, health care, information technology, legal, light industrial, marketing, office, scientific, and security clearance. Kelly’s consulting and outsourcing activity uses the advertising message “If it’s outside your scope, it’s probably within ours.” Value is created for business clients by offering expertise in specific employment fields.

PHOTO: © 2008 Kelly Services, Inc.

>> END EXAMPLE

Evolution of Marketing: Social Responsibility

During the last decade, there has been an increased focus on social responsibility, ethics, and accountability in business. The overriding idea is that a person (or business) can make money by focusing on socially responsible marketing activities and abiding by high ethical standards. Social responsibility is the idea that businesses consider society as a whole as one of their stakeholders and that businesses make decisions that take into account the well-being of society. For example, organizations such as the American Marketing Association (AMA) developed standards of ethical behavior for marketers.

A major issue that organizations must consider when practicing socially responsible marketing involves how products affect the global environment. Everything from the pollution generated by producing the products, forms of packaging used and their potential for recycling, and the amount of energy used to consume products must be considered. Some organizations adopt operating standards that govern their socially responsible marketing practices, while others choose to financially support causes that benefit society. Many accomplish both by developing green marketing products and supporting cause-marketing activities. Socially responsible marketing can be both altruistic and profitable. A recent study by Cone LLC found that two-thirds of Americans claim that they consider a company’s business practices when making purchase decisions.¹¹

EXAMPLE EVOLUTION OF MARKETING: SOCIAL RESPONSIBILITY

Pepsi, a PepsiCo brand sold in 200 countries, made a major decision in 2010 by electing not to run its traditional Super Bowl advertisement and, instead, launched a \$20 million social responsibility campaign. The Pepsi Refresh Project was designed to provide millions of dollars to fund ideas that will “refresh” the world. Pepsi launched an advertising campaign using television; online sources including Facebook, Twitter, and YouTube; radio; print; and outdoor billboards inviting people, businesses, and nonprofits to submit ideas that would have a positive impact on the world; these ideas were eligible within six categories: Health, Arts & Culture, Food & Shelter, The Planet, Neighborhoods, and Education. Each month, visitors to its Web site voted on the ideas. At the end of the month, finalists were selected to receive grant money—up to \$1.3 million. Pepsi’s objective was to create more two-way communication and to establish deeper relationships with its customers than can typically be achieved through more traditional advertising campaigns.¹²

PHOTO: PepsiCo Inc.

>> END EXAMPLE

MARKETING Functions

DEFINED Marketing functions are activities performed within organizations that create value for specific products or services.

EXPLAINED

Marketing Functions

Noted management guru Peter Drucker identified the critical role that marketing performs for business: “Because the purpose of business is to create a customer, the business enterprise has two—and only two—basic functions: marketing and innovation. Marketing and innovation produce results; all the rest are costs. Marketing is the distinguishing, unique function of the business.”¹³ The process of creating value through uniqueness occurs well before and well after the selling process. Marketing functions can be grouped into three general categories with functions from each category occurring throughout the marketing process. The three categories are the following:

- Exchange functions
- Physical functions
- Facilitating functions

Exchange functions are activities that promote and enable transfer of ownership. Examples of exchange functions include buying, selling, and pricing, as well as advertising, sales promotion, and public relations. **Physical functions** are activities that enable the flow of goods from manufacturer to consumer. Examples of physical functions include assembling, transporting and handling, warehousing, processing and packaging, standardizing, and grading. **Facilitating functions** are activities that assist in the execution of exchange and physical functions. Examples of facilitating functions include financing and risk-taking, marketing information and research, as well as the promise of servicing.

Internal Marketing Participants

There are many different marketing stakeholders. Those stakeholders within a business or with direct oversight include the following:

- Marketing department
- Other business departments
- Business leadership/board of directors

The marketing department performs a primary role in managing marketing functions, including activities such as establishing a product or service portfolio, determining pricing, establishing distribution channels, and creating promotions.

These elements compose the most common representation of the marketing mix, referred to as the **4 Ps** (Product, Price, Place, and Promotion). The marketing mix is a collection of marketing variables that are managed to achieve the desired sales performance in a target market. In addition, functions such as defining the brand and creating a CRM process are all activities performed by the marketing department.

Other business departments, such as finance, use marketing information and contribute to marketing activities in a variety of ways, including securing financing for expanded manufacturing or by providing cost information to marketing to assist in understanding the profitability of marketing decisions. Persons in positions of business leadership, such as the president or chief operating officer, and the board of directors also consume marketing information and make decisions to support or limit marketing activities through resource allocation.

External Marketing Participants

There are a number of marketing stakeholders that operate outside a business, yet have tremendous influence on marketing activities. They include the following:

- Investors
- Consumers/customers
- Advertising/PR agency
- Information providers/marketing research companies
- Government
- Partners
- Competitors


Investors can influence marketing ideas through letters to management and through attending shareholder meetings. Recent investor actions have included proposals to practice more socially responsible marketing.

Consumers and customers influence marketing through purchase decisions and feedback on survey questions. Advertising and public relations companies assist businesses in understanding consumers and customers, as well as in presenting products and services in the most favorable perspective through the creation of media content. Information providers and marketing research companies collect a wide range of consumer and market information for marketing departments. Whether studying the success of advertising or the product desires of consumers, the collection of information is critical to marketing decisions.

The government primarily influences marketing through legislation or regulation. Partners, other businesses or organizations that already work with or may work with a particular business, influence marketing choices by presenting opportunities to reach more consumers or to share in the cost of marketing activities. Competitors also influence marketing actions by their advertising investment and product launches. Thus, there are many marketing stakeholders, and their collective efforts will ultimately define the level of success a business will realize in their marketing practices.

EXAMPLE EXTERNAL MARKETING PARTICIPANTS

At Gongos Research,
we understand the big picture.



We get that you need that “aha” moment. In fact, we’ll discover plenty of them for you.

Not only do we find the story behind the data, we provide the insights you need to create products and services consumers will love.

gongos
research

Gongos: the step between guessing and knowing

When people think of marketing research, they tend to think of receiving phone calls during dinner and being stopped at shopping malls to complete surveys. In fact, the marketing research field is far more complex. Gongos Research is a custom marketing research company that has enjoyed rapid growth through the use of technology and innovation such as iCommunities and metaCommunities. These are private online communities of individuals who have chosen to become active in the communities’ social aspects (such as creating their own discussion groups) and business aspects (such as completing surveys), and are compensated for their involvement. Gongos Research assists a wide range of businesses in many different business sectors, including financial services, automotive, powersports, and consumer products.

PHOTO: Courtesy of Gongos Research, Inc.

>> END EXAMPLE



Marketing Functions

In practice, some businesses view marketing from a limited perspective by considering it synonymous to sales or advertising. Other businesses understand that marketing performs a broad range of functions, ranging from securing products to servicing products after a sale, and that the marketing activity is connected to all other business functions. Successful businesses generally consider marketing departments as the link between customers and businesses. Marketing departments are in a unique position to identify and communicate customer requirements to other departments within an organization, such as finance, accounting, manufacturing, and business planning.

Visual Summary

Summary

Building on the idea that everyone has some experience with marketing, the concept of marketing and marketing functions was developed and expanded. Marketing involves the creation of value that results in effective customer relationships. Marketing is used for a variety of tangible and intangible items, including the following:

- Products
- Services
- People
- Places
- Causes
- Events
- Ideas

Marketing functions are the tasks that are applied to the various items that can be marketed. Marketing functions can be grouped into three general categories:

- Exchange functions
- Physical functions
- Facilitating functions

A variety of marketing stakeholders either utilize or contribute to marketing activities:

- Marketing department
- Other business departments
- Business leadership/board of directors
- Investors
- Consumers/customers
- Advertising/PR agency
- Information providers/marketing research companies
- Government
- Partners
- Competitors



Chapter Key Terms

Marketing

Marketing is an organizational function and a collection of processes designed to plan for, create, communicate, and deliver value to customers and to build effective customer relationships in ways that benefit the organization and its stakeholders.

Opening Example Example: Marketing

Key Terms

Brand is a promise to deliver specific benefits associated with products or services to consumers.

Demand is the financial capacity to buy what one wants.

Need is a necessity to meet an urgent requirement.

Utility is the satisfaction received from owning or consuming a product or service.

Value is the benefits that exceed the cost of products, services, or other items.

Want is a desire for something that is not essential.

Marketing Concept

Marketing concept is an organizational philosophy dedicated to understanding and fulfilling consumer needs through the creation of value. **Example: Marketing Concept**

Example: Social Responsibility

Key Terms

Consumer orientation reflects a business focus on satisfying unmet consumer needs and wants.

Customer lifetime value is the present value of all profits expected to be earned from a customer over the lifetime of the customer's relationship with a company.

Customer relationship management (CRM) is the activities that are used to establish, develop, and maintain customer relationships.

Customer relationships are created when businesses and consumers interact through a sales transaction of a product or service and continue based on ongoing interaction between the business and the consumer.

Production orientation reflects a business focus on efficient production and distribution with little emphasis on any marketing strategy.

Relationship orientation reflects a business focus on creating value-added relationships with suppliers and consumers. **Example: Evolution of Marketing 1950–Present**

Sales orientation reflects a business focus on advertising and personal selling to create demand and move product inventory.

Marketing Functions

Marketing functions are activities performed both by consumers and by businesses involved in value creation for specific products or services. **Example: External Market Participants**

Key Terms

4 Ps are the most common classification of a marketing mix and consist of product, price, place, and promotion.

Exchange functions are activities that promote and enable transfer of ownership.

Facilitating functions are activities that assist in the execution of exchange and physical functions.

Physical functions are activities that enable the flow of goods from manufacturer to consumer.

Capstone Exercise

One aspect of marketing is the art of making people want something that they may not need. Of course, as a socially responsible marketer, we are not advocating that you mislead people with your promotions or advertising.

The key is to understand what people want versus what they need. Your personal wants and needs change, depending on your economic position, your age, your gender, and where you live.

1. Write one sentence describing a need, and write one sentence describing a want.
2. Make a list of 10 items that you want and 10 items that you need.
3. Compare your list with the list of someone of the opposite gender. Can you explain the differences?
4. Ask someone who is at least 10 years older or younger than you to make the same list, and then compare the two lists. What are the differences? What are the reasons for those differences? If you had more or less money, would your list change?
5. Think about what would be on your list if you lived in another country. What about if you lived in the Sudan in Africa, versus if you lived in France in Europe?
6. The key to this exercise is try to understand why some of the things you think you need are really things you want. Why are things that are really wants on your needs list?

Application Exercise

Use the following marketing concepts in this chapter to tackle and solve a marketing problem: value, utility, the marketing concept, want, and need.

First, start by thinking about health care products. Health care, in general terms, is the treatment and prevention of illness. There are many products available in grocery stores, drug stores, discount stores, etc., within this category for us to consider purchasing.

The Marketing Problem

Choose a product in the health care category after considering the following situation.

You feel you may be catching a cold and stop by your local store to check out the products in their health care section.

The Problem

Describe a product that helps relieve cold symptoms in the health care category. What is the product's value? Utility? What prompted you to buy it, a want or a need?

The Solution

Complete the following Problem/Solution brief using your product in the health care category, chapter concepts, and college resources.

1. From the Marketing Manager's Point of View
 - a. Problem Definition
 - b. Analysis
 - c. Product's Value
 - d. Target Market
 - e. Solution
2. From the Consumer's Point of View
 - a. Problem Definition
 - b. Analysis
 - c. Product's Value
 - d. Is Product a Want or Need?
 - e. Solution

Resources:

Marketing Defined, Explained, Applied 2e, Michael Levens
 The College Library
 Retail or Online Field Trip
 Assigned Reading—*Brand Week, Advertising Age, WSJ*,
 scholarly publications, category trade journals
 Blog your problem from either point of view, gather
 responses/posts (www.blogger.com/start)



Endnotes

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The **Market** in **Marketing**

The Market in Marketing

Chapter Overview This chapter expands on the concepts of marketing and marketing functions based on the idea that everyone has at least some experience with marketing by considering the elements of the marketing environment. In addition, consumer markets are discussed as well as business markets.

▼ Chapter Outline

Marketing Environment

- Microenvironment
- Macroenvironment

← **Objective 1.** What are the components of the marketing environment? How do those elements affect marketing strategy?

Consumer Markets

← **Objective 2.** What are consumer markets?

Business Markets

← **Objective 3.** How are business markets similar to consumer markets? How are they different?

MARKETING Environment

DEFINED *The marketing environment is a set of forces, some controllable and some uncontrollable, that influence the ability of a business to create value and attract and serve customers.*

EXPLAINED

Marketing Environment

Businesses strive to create value that leads to productive customer relationships. Many factors influence value creation and the nature of customer relationships, including factors that are internal to the business and factors that are external to the business. The **internal environment** of a business involves all those activities, including marketing, that occur within the organizational functions in a business. **Internal marketing** is the implementation of marketing practices within an organization to communicate organizational policies and practices to employees and internal stakeholders. The topics of internal marketing efforts are the business's resources, including human and financial capital, as well as intangible assets, such as brands or patents. These factors represent many of the elements that can influence changes within a business.

The **external environment** of a business involves all activities, such as supplier and customer actions, that occur outside the organizational functions of a business. **External marketing** is the implementation of marketing practices directed outside the business to create value and to form productive customer relationships. External marketing influences the external environment in distinct areas, including the microenvironment and the macroenvironment, which can either enhance or diminish the ability of a business to create value for its customers.

APPLIED

Marketing Environment

In practice, businesses typically concentrate their efforts on developing strategies that assist in managing the microenvironment. The increasing sophistication of methods to gather marketing research information, from checkout scanner data to purchase transaction databases, allows for quicker responses to changes in the microenvironment. More companies are realizing the importance of internal marketing to employees and internal stakeholders. Such internal marketing communicates the values and expectations of the business and creates business proponents in the marketplace when the employees interact with others. Many companies are also engaged in lobbying the U.S. government and governments of other countries to influence the macroenvironment. Businesses, however, typically do not directly influence the macroenvironment.

Microenvironment

The **microenvironment** includes those forces close to a company, yet outside its internal environment, that influence the ability of a business to serve its customers.¹ The microenvironment comprises entities such as customers, suppliers, competitors, and other businesses that assist or influence a business's ability to sell, distribute, promote, and develop products or services.

A tool that helps determine where power exists in the microenvironment of a business is Porter's Five Forces of Competitive Position Model.² The Porter analysis can assist a business with understanding the potential for new product development, the attractiveness of a particular market segment, or the potential to reduce costs of supply or distribution, among many other applications.

The central concept of the Five Forces of Competitive Position Model is that five forces determine the power in a business's microenvironment. Those forces are the following:

- Threat of new entrants
- Bargaining power of suppliers
- Bargaining power of customers
- Threat of substitute products
- Competitive rivalry within an industry



The Health Care and Education Reconciliation Act was signed into law by President Barack Obama on March 30, 2010. Building on its predecessor, the Patient Protection and Affordable Care Act, the health care initiative affected both consumers and businesses in a variety of ways. Coverage is expanded over several years to 32 million Americans who were uninsured at the time of the bill signing. Some other elements of the law include the creation of state-based health care exchanges for the uninsured and self-employed, families with income under a particular level are subsidized, Medicare prescription drug assistance is provided, Medicaid coverage is expanded, insurance companies are forbidden from denying coverage to certain groups of individuals such as children and individuals with

pre-existing conditions, and most individuals are mandated to purchase insurance. The implications are extensive. Demand for medical services and hospitals will most likely increase. The HMO industry will most likely be negatively impacted through increased competition and governmental mandates. Individuals may also have new or different choices as the law is implemented. There will be a variety of exchanges of information, and marketing activities, among the government, individuals, insurance companies, health care providers, and many other entities impacted by this law.³

PHOTO: Pincasso/Shutterstock.

The threat of new entrants can influence a business's level of power in an industry by the existing barriers to entry. Strong barriers to entry, such as intellectual property or economies of scale, provide a company power to resist new entrants.

Suppliers can assert power if they are the only one or one of a few businesses that can provide a particular product or service. Buyers (or customers) can also exert power on a business through the number and nature of buyers. The more buyers that are available, the less important an individual buyer is to a business. The fewer buyers that are available, the more power they can project. In some cases, one buyer, such as Walmart, is so large that it constitutes a significant percentage of total purchases from a business.

The threat of substitutes can reduce the power of a business if many substitutes exist for a particular product or service. If a product exists that is tied to another product, such as certain technical computer software, there is less threat from substitutes.

The nature of the rivalry among existing industry competitors influences the balance of power in the industry. Any change in status, whether it be the quantity and size of competing businesses, their portfolio, or their financial position, will influence the power any one business can exert on the industry.

EXAMPLE MICROENVIRONMENT



OnStar, a subsidiary of General Motors (GM) that provides subscription-based communication, tracking, diagnostic, navigation, emergency response, and other convenience services, is available on most GM vehicles and a few non-GM models. The product,

referred to as telematics, is a combination of telecommunications and informatics/computer science. It consists of a mobile phone, onboard computer, sensors, and a Global Positioning System beacon. The product is available at no charge for a specific duration when an eligible new vehicle is purchased. After an initial period the service is subscription-based priced at approximately \$200 annually. While unique to certain vehicles, many of the OnStar services have substitute products available. A mobile telephone could be considered a substitute for the OnStar hands-free calling service, a roadside service such as the American Automobile Association could be considered a substitute for OnStar's roadside assistance, and a portable navigation system could be considered a substitute for OnStar's Turn-by-Turn Navigation. The value that customers attribute to substitute products, including considerations such as switching costs, ease of use, and capability, influences the value that the customers attribute to the bundle of OnStar services.⁴

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>> END EXAMPLE

Macroenvironment

The **macroenvironment** includes societal forces that are essentially uncontrollable and influence the microenvironment of a business. Part of the external environment of a business, the macroenvironment contains the following variety of sub-environments:

- Economic
- Social and cultural
- Competitive
- Legal
- Political
- Technological

EXAMPLE MACROENVIRONMENT



A legislative change can create challenges for some businesses, and opportunities for others. As a result of a 2010 law requiring newly manufactured diesel-fueled trucks to meet new environmental emission standards, a New Jersey-based motor oil and fluid manufacturer and supplier, Prime Lube, looked to Europe,

which has been dealing with similar standards since early 2000, for potential partners. Prime Lube became one of the first U.S. distributors of the German product BlueSky Diesel Exhaust Fluid, and began manufacturing it in the United States in July 2010. BlueSky is injected into the catalytic converter of a truck in a mist form where it interacts with nitrous oxide, the black soot that is released from most diesel exhaust systems, and converts it to water and carbon dioxide. The result is close to zero emissions. Prime Lube took advantage of a change in the macroenvironment to secure a new product that solves challenges for its customers before its competitors could do so.⁵

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>> END EXAMPLE

Economic Environment

As mentioned, one of the components of the macroenvironment is the economic environment. The **economic environment** includes factors that influence consumer purchase ability and buying behavior. Inflation rates, income levels, and unemployment levels all contribute to the economic environment. **Inflation** is an increase in the price of a collection of goods that represents the overall economy. As inflation increases, prices of items such as gasoline, food, and health services generally rise, and, if average income does not keep pace, products and services can become too expensive for consumers. The result is that demand generally decreases either voluntarily or involuntarily. **Income levels** are average consumer earnings used to approximate national earnings. Changes in income inversely relate to changes in demand. **Unemployment levels** are the number of unemployed persons divided by the aggregate labor force. Increases in unemployment reduce the ability of individuals to purchase products and services.

Social and Cultural Environment

The **social and cultural environment** includes factors that relate marketing to the needs and wants of society and culture. Changes in various types of demographics contribute to the social and cultural environment. **Demographics** are characteristics of human population that are used to identify markets. These characteristics include elements such as age, race, and household structure. As consumers age, levels of income generally increase and life stages change. The result is differing product and service demands. Businesses must carefully track changes such as age to make sure their portfolio continues to provide value to a market of relevant size. The United States is becoming an increasingly diverse market. As population segments such as Hispanics, Asian Americans, and African Americans increase, product and service requirements and different advertising methods change to reach diverse audiences. Household structure is also changing. There are more single-family households because people wait to marry later in life or not at all. The quantities and types of products and services produced need to reflect these realities.

EXAMPLE ECONOMIC ENVIRONMENT



The American Recovery and Reinvestment Act (ARRA) of 2009 included a number of either new or expanded tax benefits on expenditures to reduce energy use or create new energy sources. ARRA provided for a uniform credit of 30% of the cost of qualifying improvements up to \$1,500. Expiring on December 31, 2010, the law sharply increased demand, during a very difficult economic time, for a wide range of products such as insulation, energy-efficient exterior windows and doors, and energy-efficient heating and air conditioning systems as well as contractor services.⁶

PHOTO: Christina Richards/Shutterstock.

>> END EXAMPLE

Competitive Environment

The **competitive environment** includes factors that relate to the nature, quantity, and potential actions of current and potential competitors. Changes in the context of competitors contribute to the competitive environment. If a business operates with a small number of competitors, there are fewer requirements to react to a competitive action and more time to make strategic decisions. In a competitive market, however, many more factors can impede a business from taking the actions that it wants to take. For example, if maintaining margins on products is important to generate money to fund important new product development, then a competitor's aggressive move to reduce price could hurt that business strategy. Maintaining margins would take second place to a need to respond to maintain market position.

EXAMPLE COMPETITIVE ENVIRONMENT



The 1972 launch of Pong, a video game that looked like video table tennis, is credited as greatly expanding the video game market. Pong first appeared in arcades, but Atari launched a home version in 1974. Atari's home version was a console-based game system that used cartridges and was wildly successful. In the early 1980s, competition from PC manufacturers and other video game manufacturers began eroding Atari's market share. A lack of product investment and oversupply of inventory, among other factors, caused a dramatic decline in Atari's fortunes. Atari struggles to this day.

In contrast, Nintendo entered the U.S. market in the early 1980s with its proprietary console, the Nintendo Entertainment System. Nintendo had to convince resellers to stock its product in light of Atari's problems. Nintendo reduced the risks of resellers

by agreeing to take back products that did not sell. Nintendo carefully controlled its inventory and focused on building quality products. It built a strong market presence and used that presence to influence resellers to stock a higher share of its products than those of competitors. Nintendo enjoyed great success with this strategy and continues that success today with its Wii system, among other products.

PHOTO: ST Images/Alamy Images.

>> END EXAMPLE

Legal Environment

The **legal environment** includes factors that provide rules and penalties for violations, and is designed to protect society and consumers from unfair business practices and to protect businesses from unfair competitive practices. Changes in legislation and regulations contribute to the legal environment. There are many different categories of legislation, including trade practices (fair trade), business competition, product safety, environmental protection, consumer privacy, fair pricing, packaging, and advertising disclosure and restrictions. Regulatory agencies include the Federal Communications Commission (FCC), an agency responsible for regulating interstate and international communications by television, satellite, cable, radio, and wire; the U.S. Consumer Product Safety Commission (USCPSC), an agency responsible for protecting consumers from unreasonable risks of serious injury from over 15,000 types of consumer products; and the Food and Drug Administration (FDA), an agency within the Department of Health and Human Services that has nine different centers, ranging from radiological health to food safety. In addition to national governmental legislation and regulations, there are also state and local legal requirements. The legal environment can become even more complicated as businesses increase global activities and must deal with foreign governments' legal environments that are different from those within the United States.

Political Environment

The **political environment** includes factors that select national leadership, create laws, and provide a process for discourse on a wide range of issues. Changes in form of government and scope and type of social movements contribute to the political environment. A federal system of government, where a central government performs specific duties such as national defense and state and local governments have limited autonomy, is practiced in the United States. However, some countries, such as North Korea, are dictatorships. Everything in those countries, including commercial practices, is controlled by the government. The implications for businesses are significant, because investment may be restricted when high levels of risk exist.

Social movements, either a new political party or cause, can also create trends such as interest in “green” or “fair trade” products. Whether protesting in cities or funding advocacy advertisements, these causes can have tremendous influence on consumer attitudes and interest in products or services.

Technological Environment

The **technological environment** includes factors that influence marketing based on scientific actions and innovation. Changes in consumer perspectives on scientific activities and new discoveries contribute to the technological environment. Policies on cloning, stem cell research, or other controversial topics influence marketing opportunities. Funding is either made available or is restricted based on consumer perspectives that are often translated into legal framework. New discoveries, such as fiber-optic cable and hybrid vehicle propulsion systems, create marketing opportunities where businesses can take advantage of creating value in a way that competitors cannot. Consumption patterns could change based on the significance of the product or service.

EXAMPLE TECHNOLOGICAL ENVIRONMENT



Even existing technology, when utilized in a different context, can create unique customer value. Domino's Pizza Tracker allows customers to follow the progress of their pizza from order through delivery via a Web interface. The interactive tool uses a customer phone number to identify status as the pizza passes through five distinct stages: Order Placed, Prep, Bake, Quality Check, and Out for Delivery. Advancing mobile technology will create further opportunities for Domino's and other pizza companies as well as companies involved with manufacturing and suppliers of other products and services.⁷

PHOTO: © MONIQUE POUZET - Fotolia.com.

>> END EXAMPLE

Consumer MARKETS

DEFINED *Consumer markets are the end user of the product or service and include individuals and households that are potential or actual buyers of products and services.*⁸

EXPLAINED

Consumer Markets

Both macroenvironments and microenvironments influence, through factors such as demand and supply, consumers and businesses as they make purchase decisions. U.S. consumer buying power exceeds \$10 trillion.⁹ Over one-third of that buying power comes from the California, Texas, New York, and Florida consumer markets.¹⁰ Consumer markets exist with respect to the product or service being marketed and can be considered as broad as the population of an entire country for certain food products, or as small as the limited number of people who can afford to be space tourists. **Consumer products** are products that directly fulfill the desires of consumers and are not intended to assist in the manufacture of other products.¹¹ Consumers make purchase decisions in consumer markets by assessing the utility of the products and services offered. A **consumer's surplus** occurs when a consumer purchases a product or service at a price less than the utility of the product or service.¹² This surplus reflects a marketer's missed opportunity to charge more for products or services and reflects an advantage to consumers. However, a significant disparity between purchase

price and perceived utility may cause consumers to question what might be wrong with the product or service to warrant such a discount. Ultimately, marketing links production and consumption in the consumer market.

APPLIED

Consumer Markets

In practice, purchase decisions in consumer markets are influenced heavily by the marketing and promotion of brands. Brands are used to convey value to consumers and conveying this value is accomplished through a wide range of marketing activities, including advertising and sales promotion. Marketing can be used to influence perceptions of utility and present one brand of product or service as different from another. Certain consumer markets, such as the market for shampoo and other personal care products, are saturated with brands, while others, such as the market for ultra luxury yachts, are served by few brands. Regardless of the number of competitors, each brand strives to be unique, as opposed to its competition, while remaining relevant to its consumer market.

Business MARKETS

DEFINED Business markets include individuals and organizations that are potential or actual buyers of goods and services that are used in, or in support of, the production of other products or services that are supplied to others.¹³

EXPLAINED

Business Markets

Similar to consumers, businesses purchase many products and services to fulfill needs. Products and services are used to create other products and services. Products and services also are consumed by the business through the course of its normal operations. Participants in the business market include manufacturers, some of which may also sell directly to consumers, intermediaries, and entities that wholesale products. Participants also include business customers, for example, other businesses, institutions such as churches and universities, and governments, both United States and foreign. Businesses can be classified by several systems, including the **North American Industrial Classification System (NAICS)**, which classifies businesses operating in the United States, Canada, and Mexico into groups based on their activities. For example, paging services are classified as 513321. The first two numbers represent the sector, in this case information. The third digit represents the subsector of broadcasting and telecommunications. The fourth digit represents the industry group of telecommunications. The fifth digit represents the industry of wireless communication carriers, except satellite, and the sixth digit represents the U.S. paging industry.

Business-to-business, also referred to as **B2B**, involves the sale of products and services from one business to another. Businesses involved in B2B sales range in size from one-person small businesses to large multinational companies. Although different in size, firms operating in business markets face market characteristics that are similar to those businesses that operate in consumer markets. Compared to consumer markets, business markets generally are organized by similar geographic locations, such as automotive parts manufacturers clustering in southeastern Michigan.

B2B marketers tend to work with fewer but considerably larger customers than do consumer marketers. The consumer market does influence demand in the B2B market. **Derived demand** is the demand for a product or service that results from the demand for another product or service. Consider the situation of a dress where the raw material, cotton, is spun, weaved, tailored, shipped, and sold to consumers. The demand for dresses and other cotton products increases the demand for cotton.

Demand for business products and services can be created from a variety of circumstances, including the demand for a complementary product or service, shortages in inventory stock for manufacturing, or dramatic changes in market economic conditions. Just as with consumer products, demand for business products can be responsive to price changes or may experience few effects from price changes, based on the nature of the product, such as price range and number of competitors.

Demand can also be influenced by the circumstances of the buying situation. There are three major classifications, or **buyclasses**, of business buying situations.¹⁴ These include the following:

- **New tasks**—A first-time or unique purchase decision that requires extensive effort. An example of this is when ACME publishing company buys a printing press to print its own books rather than work through its vendor.
- **Modified rebuy**—A buyer decides to consider alternative sources for the company's purchasing requirements. For example, ACME publishing company asks for bids from other print vendors rather than stay with its current vendor.
- **Straight rebuy**—A buyer decides to continue the existing procurement relationship and does not see any reason to search for additional information to assist in the purchase process. For example, ACME publishing company continues to print its books with the same vendor that it has used for the past five years.

Compared to consumer marketing, B2B markets tend to have more individuals in the buying process, the process tends to be formal, and business relationships tend to be longer-term. A **buying center** is the collection of individuals who perform specific roles in the procurement process. There are six specific roles performed by individuals in the buying center:¹⁵

- The **INITIATOR** is the first to identify the need to buy a particular product or service to solve an organizational problem.
- **INFLUENCERS** are those who assist in developing evaluation criteria and whose views influence the buying center's buyers and deciders.
- The **BUYER** holds the formal authority to choose the supplier and to arrange terms of condition.

- The DECIDER ultimately approves all or any part of the entire buying decision—whether to buy, what to buy, how to buy, and where to buy (in routine purchasing situations the buyer is often the decider).
- USERS consume or utilize the product or service.
- The GATEKEEPER controls the flow of information to decision makers and influencers.

Depending on the type of buying situation, some or all of the steps in the buyer purchase process are conducted. There are eight distinct steps, or phases, in the buyer purchase process (see Figure 1).¹⁶

A decision a business must make when determining how to fulfill a purchasing need is whether to make, buy, or lease the product. A business may choose to produce a product if the company has the capability and capacity to do so. There may also be a strategic reason to manufacture certain items instead of externally sourcing them. Examples could include a government not wanting to externally source critical military components for security reasons or an automaker not

wanting to externally source its powertrain components so as to retain a competitive uniqueness. A business may also decide to purchase the product from a supplier. Reasons for sourcing a product from a supplier could include cost advantages or a lack of technical expertise for that specific product. A business could also lease a product. If a particular product is exposed to rapid technological change or requires regular servicing or other support, a leasing option might be most appropriate.

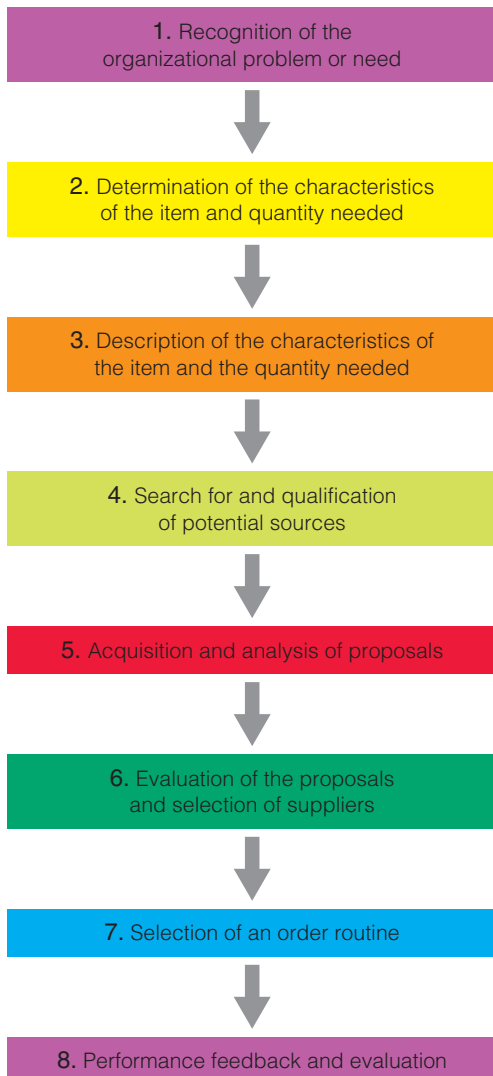
APPLIED

Business Markets

Successful marketing to either business or consumer markets requires an understanding of customers and what creates value for those customers. Business uniqueness is important for businesses selling to either consumer or business markets. While branding is important in business and consumer markets, the nature of the purchasing process in B2B requires particular attention to the buying process. Structured processes, such as those required to secure government or institutional business, require a level of sophistication in the processes of particular entities. Personal relationships are another critical factor in B2B because far fewer customers account for a greater percentage of total sales. Most personal relationships would be cost prohibitive in business-to-consumer (B2C) markets.

Some businesses, such as private equity groups, are purchasing a wide range of related businesses, including suppliers and manufacturers. Different elements of the operations of these businesses are being combined and managed to extract greater profitability from the value chain. Other businesses are forming partnerships with their suppliers to manage cost exposure and to keep suppliers financially viable. This is because many companies have single sources of supply due to economies of scale and business conditions could dramatically change, which would cause incredible financial pressure on suppliers and their customers.

FIGURE 1 Steps in the Buyer Purchase Process



EXAMPLE BUSINESS MARKETS



Since being founded over 80 years ago, Caterpillar has grown to be the world's largest maker of construction and mining equipment, diesel and natural gas engines, and industrial gas turbines. Caterpillar manufactures more than 300 products in 23 countries and serves customers in 200 countries. Caterpillar considers itself a leader in building the world's infrastructure with three primary business lines: machinery, engines, and financial products. Selling directly to other businesses involved in building

infrastructure, Caterpillar creates value for its customers through its primary business lines but also offers equipment rental, remanufacturing, and logistics services. Having a wide range of products and services is critical to Caterpillar's success with its business customers.¹⁷

PHOTO: Dmitry Kalinovsky/Shutterstock.

>> END EXAMPLE

Visual Summary

Summary

Building on the concept of marketing and the marketing function, the marketing environment was introduced, as were consumer and business markets. The marketing environment is a set of forces, some controllable and some uncontrollable, that influence a business's ability to create value and attract and serve customers. Many factors influence value creation and the nature of customer relationships in the marketing environment. Some of those influential factors are internal to the business, while others are external. The internal environment of a business involves all activities, including marketing, that occur within the organizational functions in a business. The external environment of a business involves all activities that occur outside the organizational functions of a business. The external environment can be divided into the micro-environment and the macroenvironment. The central concept of the Five Forces of Competitive Position Model is that five forces determine the power in a business's microenvironment. The macroenvironment includes societal forces that are essentially uncontrollable and influence the microenvironment of a business.

Consumer markets include individuals and households that are potential or actual buyers of products and services that assist in further production only indirectly or incidentally, if at all. Business markets include individuals or organizations that are potential or actual buyers of goods and services that are used in, or in support of, the production of other products or services that are supplied to others. Business markets generally are organized by similar geographic locations, are influenced by consumer market demand, exist in fewer numbers, involve more individuals in the buying process, and are subject to a more formal buying process than are consumer markets.

Marketing Environment

