

FIFTEENTH EDITION

A PREFACE TO MARKETING MANAGEMENT

J. Paul Peter / James H. Donnelly, Jr.



A Preface to Marketing Management

Fifteenth Edition

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A PREFACE TO MARKETING MANAGEMENT, FIFTEENTH EDITION

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To Rose, Angie, and my BFF, Chelsea

J. Paul Peter

To Gayla

Jim Donnelly

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Professor Peter's research has appeared in the *Journal of Marketing*, the *Journal of Marketing Research*, the *Journal of Consumer Research*, the *Journal of Retailing*, and the *Academy of Management Journal*, among others. His article on construct validity won the prestigious William O'Dell Award from the *Journal of Marketing Research*, and he was a finalist for this award on two other occasions. He was the recipient of the Churchill Award for Lifetime Achievement in Marketing Research, given by the American Marketing Association and the Gaumnitz Distinguished Faculty Award from the School of Business, University of Wisconsin–Madison. He is an author or editor of 30 books, including *A Preface to Marketing Management*, Fifteenth edition; *Marketing Management: Knowledge and Skills*; *Consumer Behavior and Marketing Strategy*; *Strategic Management: Concepts and Applications*; and *Marketing: Creating Value for Customers*. He is one of the most cited authors in the marketing literature.

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Professor Donnelly is very active in the banking industry where he has served on the board of directors of the Institute of Certified Bankers and the ABA's Marketing Network. He has also served as academic dean of the ABA's School of Bank Marketing and Management.

Preface

We have always enjoyed writing and revising this book because we believe marketing management is a fascinating field. Not only does it include elements of economics, psychology, sociology, and anthropology, but also marketing, finance, and strategic management, among other disciplines. Our goal has always been to blend these into a clear and concise presentation of the basic principles of marketing management so that the core concepts and ideas are covered sufficiently to ensure an in-depth understanding.

Throughout this book's history, feedback from both students and instructors supports our goal. Our book has been used in a wide variety of settings and is the best-selling book of its kind. We are proud to introduce the fifteenth edition knowing that our book and its eight foreign translations have been used around the world whenever courses require a concise overview of the critical aspects of marketing management.

In this edition, we have maintained the format and features of the book that make it a teachable text. We have also updated existing content and added new content to better reflect the changes in marketing management and its environment. We present quality content and examples and avoid excessive verbiage, pictures, and descriptions.

Each time we revise this book, there is a strong emphasis on responding to the feedback of students and instructors. We tailored the book to their expressed needs and wants. We believe a major reason the book has reached its fifteenth edition is that the marketing concept works.

TEXT FORMAT AND FEATURES

In addition to providing a clear and concise overview of the basic principles of marketing management, we have designed this book to assist students in analyzing marketing problems and cases and developing and writing marketing plans. The text consists of four sections.

Section I of the book consists of 13 chapters that cover the essentials of marketing management. Each chapter has a set of "Marketing Insights" to provide a deeper understanding of the chapter material. Each chapter also has a set of key terms and concepts at its conclusion to provide students a quick reference and to facilitate learning. This section is divided into four parts that include (1) strategic planning and marketing management, (2) understanding target markets, (3) the marketing mix, and (4) marketing in special fields. These 13 chapters are designed to provide students with a clear understanding of the concepts, techniques, tools, and strategies for effective marketing management and marketing strategy development.

Section II of the book provides an approach to solving marketing problems and cases. While cases differ in many ways, this approach provides a starting point in understanding the current situation in the case, finding problems, and making recommendations to improve the organization's situation.

Section III of the book provides an overview of financial analysis for marketing. It includes breakeven analysis, net present value analysis, and ratio analysis. These tools are useful for evaluating strategic alternatives and the overall financial condition of an organization.

Section IV of the book provides a framework for developing marketing plans. It offers students an approach to setting up a marketing plan and insights into key issues to consider at each stage of the development process.

Taken collectively, we think these four sections provide a sound foundation for students to develop and improve their strategic marketing skills. In addition to the text material, we also offer students a section of the Online Learning Center (OLC) at www.mhhe.com/peterdonnelly15e that contains a number of useful aids for facilitating learning.

UPDATES AND CHANGES IN THIS EDITION

The following is a summary of updates and changes to this edition. While some of them were designed to improve existing content, others were needed to reflect the dynamic nature of marketing management

Section I Essentials of Marketing Management

Chapter 1 Strategic Planning and the Marketing Management Process

- Revised discussion of the marketing concept
- New comparison of market and production orientations

Chapter 2 Marketing Research: Process and Systems for Decision Making

- Expanded discussion of primary and secondary data
- New comparison of quantitative and qualitative data
- New discussion of some uses of the Internet for marketing
- Revised discussion of marketing information systems

Chapter 3 Consumer Behavior

- New comparison of American cultural values
- New listing of online buying advantages and disadvantages from the consumer's point of view
- New discussion of tracking consumer behavior on social media

Chapter 4 Business, Government, and Institutional Buying

- New discussion of online organizational buying
- New discussion of social media for organizational buyers and sellers

Chapter 5 Market Segmentation

- Additional discussion of product positioning
- Additional discussion of segmentation bases, including a segmentation of online shoppers

Chapter 6 Product and Brand Strategy

- Updated listing of the 20 best global brands
- Revised discussion of qualities of a good brand name

Chapter 7 New Product Planning and Development

- New discussion of screening new product ideas
- Updated discussion of factors associated with new product success
- New discussion of new product failures and their causes

Chapter 8 Integrated Marketing Communication

- New listing of the largest global and U.S. advertisers
- New discussion of online media for integrated marketing communication
- Updated discussion of advantages and disadvantages of major advertising media

Chapter 9 Personal Selling, Relationship Building, and Sales Management

- New listing of factors influencing greater emphasis on personal selling
- Expanded discussion of traits of successful salespeople
- Expanded list of measures to evaluate salespeople

Chapter 10 Distribution Strategy

- Additional discussion of direct sales
- New discussion of successful multichannel marketing strategies

Chapter 11 Pricing Strategy

- Updated discussion of EDLP and high/low pricing strategies
- New discussion of deceptive pricing practices

Chapter 12 The Marketing of Services

- New discussion of customer judgments of service quality dimensions
- New discussion of the Internet as a service

Chapter 13 Global Marketing

- New listing of the top U.S. companies and their international sales
- New discussion of tips for entering emerging markets

Section II Analyzing Marketing Problems and Cases

- Updated and expanded discussion of the objectives of case analysis
- Updated discussion of SWOT analysis

Section III Financial Analysis for Marketing Decisions

- New listing of financial and strategic objectives

Section IV Developing Marketing Plans

- Updated figures

INSTRUCTOR SUPPORT

The *Preface* has been used as a resource in college courses and professional development programs that require an overview of the critical “need-to-know” aspects of marketing management and marketing strategy development. It has been used:

- As the primary introductory text at the undergraduate level.
- At both the undergraduate and MBA level, where several AACSB core curriculum courses are team-taught as one multidisciplinary 9- to 12-hour course.
- At the advanced undergraduate and MBA level where it is used as the content foundation in courses that utilize marketing cases.
- In short courses and executive development programs.

The instructor section of www.mhhe.com/peterdonnelly15e includes an instructor’s manual and other support material. It includes two expanded supplements. They were developed in response to instructors’ requests. We offer a test bank of nearly 1,300 multiple-choice, true-false, and brief essay questions. We also offer PowerPoint slides that highlight key text material. Your McGraw-Hill representative can also assist in the delivery of any additional instructor support material.

Acknowledgments

Our book is based on the works of many academic researchers and marketing practitioners. We want to thank those individuals who contributed their ideas to develop the field of marketing throughout the years. Indeed, our book would not be possible without their contributions. We would also like to thank our teachers, colleagues, and students for their many contributions to our education. We would also like to publicly acknowledge those individuals who served as reviewers of this and previous editions. We appreciate their advice and counsel and have done our best to reflect their insightful comments.

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Contents

SECTION I ESSENTIALS OF MARKETING MANAGEMENT 1

PART A INTRODUCTION 3

Chapter 1 Strategic Planning and the Marketing Management Process 4

- The Marketing Concept 4
- What Is Marketing? 5
- What Is Strategic Planning? 6
 - Strategic Planning and Marketing Management* 6
 - The Strategic Planning Process* 7
 - The Complete Strategic Plan* 16
- The Marketing Management Process 16
 - Situation Analysis* 16
 - Marketing Planning* 19
 - Implementation and Control of the Marketing Plan* 20
 - Marketing Information Systems and Marketing Research* 21
- The Strategic Plan, the Marketing Plan, and Other Functional Area Plans 21
 - Marketing's Role in Cross-Functional Strategic Planning* 21
- Summary 22

Appendix Portfolio Models 25

PART B MARKETING INFORMATION, RESEARCH, AND UNDERSTANDING THE TARGET MARKET 29

Chapter 2 Marketing Research: Process and Systems for Decision Making 30

- The Role of Marketing Research 30
- The Marketing Research Process 31
 - Purpose of the Research* 31
 - Plan of the Research* 32

- Performance of the Research* 35
- Processing of Research Data* 35
- Preparation of the Research Report* 37
- Limitations of the Research Process* 40
- Marketing Information Systems 40
- Summary 41

Chapter 3 Consumer Behavior 43

- Social Influences on Consumer Decision Making 44
 - Culture and Subculture* 44
 - Social Class* 45
 - Reference Groups and Families* 46
- Marketing Influences on Consumer Decision Making 46
 - Product Influences* 46
 - Price Influences* 46
 - Promotion Influences* 47
 - Place Influences* 47
- Situational Influences on Consumer Decision Making 48
- Psychological Influences on Consumer Decision Making 49
 - Product Knowledge* 49
 - Product Involvement* 49
- Consumer Decision Making 50
 - Need Recognition* 51
 - Alternative Search* 51
 - Alternative Evaluation* 53
 - Purchase Decision* 54
 - Postpurchase Evaluation* 54
- Summary 56

Chapter 4 Business, Government, and Institutional Buying 59

- Categories of Organizational Buyers 59
 - Producers* 59
 - Intermediaries* 60
 - Government Agencies* 60
 - Other Institutions* 60
- The Organizational Buying Process 60
- Purchase-Type Influences on Organizational Buying 61

- Straight Rebuy* 61
- Modified Rebuy* 61
- New Task Purchase* 61
- Structural Influences on Organizational Buying 62
 - Purchasing Roles* 62
 - Organization-Specific Factors* 63
 - Purchasing Policies and Procedures* 64
- Behavioral Influences on Organizational Buying 64
 - Personal Motivations* 64
 - Role Perceptions* 65
- Stages in the Organizational Buying Process 67
 - Organizational Need* 68
 - Vendor Analysis* 69
 - Purchase Activities* 69
 - Postpurchase Evaluation* 69
- Summary 70

Chapter 5 Market Segmentation 71

- Delineate the Firm's Current Situation 71
- Determine Consumer Needs and Wants 72
- Divide Markets on Relevant Dimensions 72
 - A Priori versus Post Hoc Segmentation* 73
 - Relevance of Segmentation Dimensions* 74
 - Bases for Segmentation* 74
- Develop Product Positioning 79
- Decide Segmentation Strategy 81
- Design Marketing Mix Strategy 82
- Summary 83

PART C THE MARKETING MIX 85

Chapter 6 Product and Brand Strategy 86

- Basic Issues in Product Management 86
 - Product Definition* 86
 - Product Classification* 87
 - Product Quality and Value* 88
 - Product Mix and Product Line* 89
 - Branding and Brand Equity* 90
 - Packaging* 97
- Product Life Cycle 97
 - Product Adoption and Diffusion* 99
- The Product Audit 100
 - Deletions* 100
 - Product Improvement* 101

- Organizing for Product Management 101
- Summary 103

Chapter 7 New Product Planning and Development 105

- New Product Strategy 106
- New Product Planning and Development Process 108
 - Idea Generation* 109
 - Idea Screening* 110
 - Project Planning* 111
 - Product Development* 111
 - Test Marketing* 111
 - Commercialization* 112
 - The Importance of Time* 112
- Some Important New Product Decisions 113
 - Quality Level* 113
 - Product Features* 114
 - Product Design* 115
 - Product Safety* 115
- Causes of New Product Failure 117
 - Need for Research* 117
- Summary 118

Chapter 8 Integrated Marketing Communications 120

- Strategic Goals of Marketing Communication 120
 - Create Awareness* 120
 - Build Positive Images* 120
 - Identify Prospects* 120
 - Build Channel Relationships* 122
 - Retain Customers* 122
- The Promotion Mix 122
- Integrated Marketing Communications 123
- Advertising: Planning and Strategy 124
 - Objectives of Advertising* 124
- Advertising Decisions 126
 - The Expenditure Question* 127
 - The Allocation Question* 128
- Sales Promotion 132
 - Push versus Pull Marketing* 132
 - Trade Sales Promotions* 134
 - Consumer Promotions* 135
 - What Sales Promotion Can and Can't Do* 135
- Public Relations 136
- Direct Marketing 136
- Summary 137

Appendix**Major Federal Agencies Involved in Control of Advertising 139****Chapter 9****Personal Selling, Relationship Building, and Sales Management 140**

Importance of Personal Selling 140

The Sales Process 141

*Objectives of the Sales Force 142**The Sales Relationship-Building Process 143**People Who Support the Sales Force 147*

Managing the Sales and Relationship-Building Process 148

*The Sales Management Task 148**Controlling the Sales Force 149**Motivating and Compensating**Performance 153*

Summary 155

Chapter 10**Distribution Strategy 157**

The Need for Marketing Intermediaries 157

Classification of Marketing Intermediaries and Functions 157

Channels of Distribution 159

Selecting Channels of Distribution 160

Specific Considerations 160

Managing a Channel of Distribution 163

*Relationship Marketing in Channels 163**Vertical Marketing Systems 163*

Wholesaling 165

Store and Nonstore Retailing 166

*Store Retailing 167**Nonstore Retailing 168*

Summary 172

Chapter 11**Pricing Strategy 174**

Demand Influences on Pricing Decisions 174

*Demographic Factors 174**Psychological Factors 174**Price Elasticity 176*

Supply Influences on Pricing Decisions 176

*Pricing Objectives 176**Cost Considerations in Pricing 176**Product Considerations in Pricing 178*

Environmental Influences on Pricing

Decisions 179

*The Internet 179**Competition 179**Government Regulations 180*

A General Pricing Model 181

*Set Pricing Objectives 181**Evaluate Product-Price Relationships 181**Estimate Costs and Other Price Limitations 182**Analyze Profit Potential 183**Set Initial Price Structure 183**Change Price as Needed 183*

Summary 184

PART D**MARKETING IN SPECIAL FIELDS 187****Chapter 12****The Marketing of Services 188**

Important Characteristics of Services 190

*Intangibility 190**Inseparability 191**Perishability and Fluctuating Demand 192**Client Relationship 192**Customer Effort 193**Uniformity 193*

Providing Quality Services 194

*Customer Satisfaction Measurement 195**The Importance of Internal Marketing 196*

Overcoming the Obstacles in Service

Marketing 197

*Limited View of Marketing 197**Limited Competition 198**Noncreative Management 198**No Obsolescence 199*

Implications for Service Marketers 200

Summary 200

Chapter 13**Global Marketing 202**

The Competitive Advantage of Nations 203

Organizing for Global Marketing 204

*Problems with Entering Foreign Markets 204**Organizing the Multinational Company 207*

Programming for Global Marketing 209

*Global Marketing Research 209**Global Product Strategy 211**Global Distribution Strategy 211**Global Pricing Strategy 212**Global Advertising and Sales Promotion**Strategy 213*

Entry and Growth Strategies for Global Marketing 214

Summary 217

SECTION II
ANALYZING MARKETING PROBLEMS
AND CASES 219

A Case Analysis Framework 221

- 1. Analyze and Record the Current Situation 221
- 2. Analyze and Record Problems and Their Core Elements 226
- 3. Formulate, Evaluate, and Record Alternative Courses of Action 227
- 4. Select and Record the Chosen Alternative and Implementation Details 227

Pitfalls to Avoid in Case Analysis 229

Communicating Case Analyses 230

- The Written Report 230
- The Oral Presentation 232

Summary 232

SECTION III
FINANCIAL ANALYSIS FOR
MARKETING DECISIONS 233

Financial Analysis 234

- Breakeven Analysis 234
- Net Present Value Analysis 236
- Ratio Analysis 238

Summary 242

SECTION IV
DEVELOPING MARKETING PLANS 243

A Marketing Plan Framework 244

- Title Page 245
- Executive Summary 245
- Table of Contents 246
- Introduction 246
- Situational Analysis 246
- Marketing Planning 246
- Implementation and Control of the Marketing Plan 248
- Summary 250
- Appendix—Financial Analysis 250
- References 253

Summary 253

Chapter Notes 254

Index 259

Section

Essentials of Marketing Management

Part A

Introduction

- 1 Strategic Planning and the Marketing Management Process

Chapter 1

Strategic Planning and the Marketing Management Process

The purpose of this introductory chapter is to present the marketing management process and outline what marketing managers must *manage* if they are to be effective. In doing so, it will also present a framework around which the remaining chapters are organized. Our first task is to review the organizational philosophy known as the marketing concept, because it underlies much of the thinking presented in this book. The remainder of this chapter will focus on the process of strategic planning and its relationship to the process of marketing planning.

THE MARKETING CONCEPT

Simply stated, the marketing concept means that *an organization should seek to achieve its goals by serving its customers*. For a business organization, this means that it should focus its efforts on determining what customers need and want and then creating and offering products and services that satisfy these needs and wants. By doing so, the business will achieve its goal of making profits.

The purpose of the marketing concept is to rivet the attention of organizations on serving customer needs and wants. This is called a *market orientation*, and it differs dramatically from a *production orientation* that focuses on making products and then trying to sell them to customers. Thus, effective marketing starts with the recognition of customer needs and wants and then works backward to create products and services to satisfy them. In this way, organizations can satisfy customers more efficiently in the present and more accurately forecast changes in customers needs and wants in the future. This means that organizations should focus on building long-term customer relationships in which an initial sale is only an early step in the relationship, not an end goal. Long-term relationships between organizations and customers lead to higher levels of profits and higher levels of customer satisfaction.

The principal task of an organization with a market orientation is not to manipulate customers to do what suits its interests but rather to find effective and efficient means to satisfy the interests of customers. This is not to say that all organizations do so. Clearly many are still production oriented. However, effective marketing, as defined in this text, requires that customers come first in organizational decision making.

Topic	Marketing Orientation	Production Orientation
Attitudes toward customers	Customer needs determine company plans	They should be glad we exist, trying to cut costs and bringing out better products
Product offering	Company makes what it can sell	Company sells what it can make
Role of marketing research	To determine customer needs and how well company is satisfying them	To determine customer reaction, if used at all
Interest in innovation	Focus is on locating new opportunities	Focus is on technology and cost cutting
Customer service	Satisfy customers after the sale and they'll come back again	An activity required to reduce consumer complaints
Focus of advertising	Need-satisfying benefits of goods and services	Product features and how products are made
Relationship with customer	Customer satisfaction before and after sale leads to a profitable long-run relationship	Relationship ends when a sale is made
Costs	Eliminate costs that do not give value to customer	Keep costs as low as possible

William D. Perrault Jr., Joseph P. Cannon, and E. Jerome McCarthy, *Essentials of Marketing*. 15th ed. (New York: McGraw-Hill, 2017), p. 19. Reprinted with permission of McGraw-Hill Education.

One qualification to this statement deals with the question of a conflict between consumer wants and societal needs and wants. For example, if society deems clean air and water as necessary for survival, this need may well take precedence over a consumer’s want for goods and services that pollute the environment.

WHAT IS MARKETING?

Everyone reading this book has been a customer for most of his or her life. Last evening you stopped at a local supermarket to graze at the salad bar, pick up some bottled water and a bag of Fritos corn chips. While you were there, you snapped a \$1.00 coupon for a new flavor salad dressing out of a dispenser and tasted some new breakfast potatoes being cooked in the back of the store. As you sat down at home to eat your salad, you answered the phone and someone suggested that you need to have your carpets cleaned. Later on in the evening you saw TV commercials for tires, soft drinks, athletic shoes, and the dangers of smoking and drinking during pregnancy. Today when you enrolled in a marketing course, you found that the instructor has decided that you must purchase this book. A friend has already purchased the book on the Internet. All of these activities involve marketing. And each of us knows something about marketing because it has been a part of our life since we had our first dollar to spend.

Since we are all involved in marketing, it may seem strange that one of the persistent problems in the field has been its definition. The American Marketing Association defines marketing as “the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.”¹ This definition takes into account all parties involved in the marketing effort: members of the producing organization, resellers of goods and services, and

FIGURE 1.1
Major Types of
Marketing

Type	Description	Example
Product	Marketing designed to create exchange for tangible products.	Strategies to sell Gateway computers.
Service	Marketing designed to create exchanges for intangible products.	Strategies by Allstate to sell insurance.
Person	Marketing designed to create favorable actions toward persons.	Strategies to elect a political candidate.
Place	Marketing designed to attract people to places.	Strategies to get people to vacation in national or state parks.
Cause	Marketing designed to create support for ideas, causes, or issues or to get people to change undesirable behaviors.	Strategies to get pregnant women not to drink alcohol.
Organization	Marketing designed to attract donors, members, participants, or volunteers.	Strategies designed to attract blood donors.

customers or clients. While the broadness of the definition allows the inclusion of nonbusiness exchange processes, the primary emphasis in this text is on marketing in the business environment. However, this emphasis is not meant to imply that marketing concepts, principles, and techniques cannot be fruitfully employed in other areas of exchange as is clearly illustrated in Figure 1.1.

WHAT IS STRATEGIC PLANNING?

Before a production manager, marketing manager, and personnel manager can develop plans for their individual departments, some larger plan or blueprint for the *entire* organization should exist. Otherwise, on what would the individual departmental plans be based?

In other words, there is a larger context for planning activities. Let us assume that we are dealing with a large business organization that has several business divisions and several product lines within each division (e.g., General Electric, Altria). Before individual divisions or departments can implement any marketing planning, a plan has to be developed for the entire organization.² This means that senior managers must look toward the future and evaluate their ability to shape their organization's destiny in the years and decades to come. The output of this process is objectives and strategies designed to give the organization a chance to compete effectively in the future. The objectives and strategies established at the top level provide the context for planning in each of the divisions and departments by divisional and departmental managers.

Strategic Planning and Marketing Management

Some of the most successful business organizations are here today because many years ago they offered the right product at the right time to a rapidly growing market. The same can also be said for nonprofit and governmental organizations. Many of the critical decisions of the past were made without the benefit of strategic thinking or planning. Whether these decisions were based on wisdom or were just luck is not important; they worked for these organizations. However, a worse fate befell countless other organizations. More than three-quarters of the 100 largest U.S. corporations of 70 years ago have fallen from the list. These corporations at one time dominated their markets, controlled vast resources, and had the best-trained workers. In the end, they all made the same critical mistake. Their managements failed to recognize that business strategies need to reflect changing

1. It costs a great deal more to acquire a new customer than to keep an old one.
2. Loyal customers buy more from your firm over time.
3. The longer you keep a customer, the more profitable they become over time.
4. It costs less to service loyal customers than new customers.
5. Loyal customers are often excellent referrals for new business.
6. Loyal customers are often willing to pay more for the quality and value they desire.

Source: One of the earliest works on the value of the loyal customer was Frederick F. Reichheld, *The Loyalty Effect*. (Boston: HBS Press, 1996). Also see Roland T. Rust, Katherine N. Lemon, and Valerie A. Zeithaml, “Return on Marketing: Using Customer Equity to Focus Marketing Strategies,” *Journal of Marketing*, January 2004, pp. 76–89; and W. D. Perreault Jr., J. P. Cannon, and E. Jerome McCarthy, *Essentials of Marketing*, 15th ed. (New York: McGraw-Hill, 2017), pp. 42–43.

environments and emphasis must be placed on developing business systems that allow for continuous improvement. Instead, they attempted to carry on business as usual.

Present-day managers are increasingly recognizing that wisdom and innovation alone are no longer sufficient to guide the destinies of organizations, both large and small. These same managers also realize that the true mission of the organization is to provide value for three key constituencies: customers, employees, and investors. Without this type of outlook, no one, including shareholders, will profit in the long run.

Strategic planning includes all the activities that lead to the development of a clear organizational mission, organizational objectives, and appropriate strategies to achieve the objectives for the entire organization. The form of the process itself has come under criticism in some quarters for being too structured; however, strategic planning, if performed successfully, plays a key role in achieving an equilibrium between the short and the long term by balancing acceptable financial performance with preparation for inevitable changes in markets, technology, and competition, as well as in economic and political arenas. Managing principally for current cash flows, market share gains, and earnings trends can mortgage the firm’s future. An intense focus on the near term can produce an aversion to risk that dooms a business to stagnation. Conversely, an overemphasis on the long run is just as inappropriate. Companies that overextend themselves betting on the future may penalize short-term profitability and other operating results to such an extent that the company is vulnerable to takeover and other threatening actions.

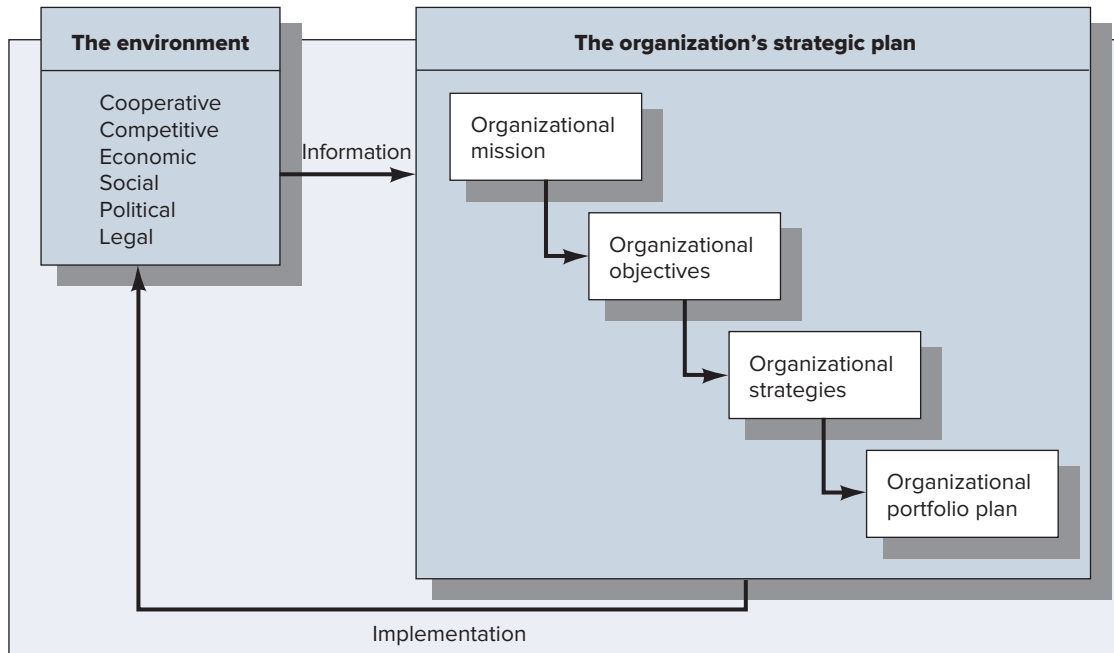
The strategic planning process is depicted in Figure 1.2. In the strategic planning process, the organization gathers information about the changing elements of its environment. Managers from all functional areas in the organization assist in this information-gathering process. This information is useful in aiding the organization to adapt better to these changes through the process of strategic planning. The strategic plan(s)³ and supporting plan are then implemented in the environment. The end results of this implementation are fed back as new information so that continuous adaptation and improvement can take place.

The Strategic Planning Process

The output of the strategic planning process is the development of a strategic plan. Figure 1.2 indicates four components of a strategic plan: mission, objectives, strategies, and portfolio plan. Let us carefully examine each one.

Organizational Mission

The organization’s environment provides the resources that sustain the organization, whether it is a business, a college or university, or a government agency. In exchange for these resources, the organization must supply the environment with quality goods

FIGURE 1.2 The Strategic Planning Process

and services at an acceptable price. In other words, every organization exists to accomplish something in the larger environment and that purpose, vision, or mission usually is clear at the organization's inception. As time passes, however, the organization expands, and the environment and managerial personnel change. As a result, one or more things are likely to occur. First, the organization's original purpose may become irrelevant as the organization expands into new products, new markets, and even new industries. For example, Levi Strauss began as a manufacturer of work clothes. Second, the original mission may remain relevant, but managers begin to lose interest in it. Finally, changes in the environment may make the original mission inappropriate, as occurred with the March of Dimes when a cure was found for polio. The result of any or all three of these conditions is a "drifting" organization, without a clear mission, vision, or purpose to guide critical decisions. When this occurs, management must search for a purpose or emphatically restate and reinforce the original purpose.

The mission statement, or purpose, of an organization is the description of its reason for existence. It is the long-run vision of what the organization strives to be, the unique aim that differentiates the organization from similar ones and the means by which this differentiation will take place. In essence, the mission statement defines the direction in which the organization is heading and how it will succeed in reaching its desired goal. While some argue that vision and mission statements differ in their purpose, the perspective we will take is that both reflect the organization's attempt to guide behavior, create a culture, and inspire commitment. However, it is more important that the mission statement comes from the heart and is practical, easy to identify with, and easy to remember so that it will provide direction and significance to all members of the organization regardless of their organizational level.

The basic questions that must be answered when an organization decides to examine and restate its mission are, What is our business? Who are our customers? What do customers value? and What is our business? The answers are, in a sense, the assumptions on which the organization is being run and from which future decisions will evolve. While such questions

Organization	Mission
Large pharmaceutical firm	We will become the world's most valued company to patients, customers, colleagues, investors, business partners, and the communities where we work and live.
Community bank	To help citizens successfully achieve and celebrate important life events with education, information, products, and services.
Skin care products	We will provide luxury skin-care products with therapeutic qualities that make them worth their premium price.
Hotel chain	Grow a worldwide lodging business using total-quality-management (TQM) principles to continuously improve preference and profitability. Our commitment is that <i>every guest leaves satisfied</i> .
Mid-size bank	We will become the best bank in the state for medium-size businesses by 2024.

may seem simplistic, they are such difficult and critical ones that the major responsibility for answering them must lie with top management. In fact, the mission statement remains the most widely used management tool in business today. In developing a statement of mission, management must take into account three key elements: the organization's history, its distinctive competencies, and its environment.⁴

1. *The organization's history.* Every organization—large or small, profit or nonprofit—has a history of objectives, accomplishments, mistakes, and policies. In formulating a mission, the critical characteristics and events of the past must be considered.
2. *The organization's distinctive competencies.* While there are many things an organization may be able to do, it should seek to do what it can do best. Distinctive competencies are things that an organization does well—so well in fact that they give it an advantage over similar organizations. For Honeywell, its ability to design, manufacture, and distribute a superior line of thermostats. Similarly, Procter & Gamble's distinctive competency is its knowledge of the market for low-priced, repetitively purchased consumer products. No matter how appealing an opportunity may be, to gain advantage over competitors, the organization must formulate strategy based on distinctive competencies.
3. *The organization's environment.* The organization's environment dictates the opportunities, constraints, and threats that must be identified before a mission statement is developed. For example, managers in any industry that is affected by Internet technology breakthroughs should continually be asking, How will the changes in technology affect my customers' behavior and the means by which we need to conduct our business?

However, it is extremely difficult to write a useful and effective mission statement. It is not uncommon for an organization to spend one or two years developing a useful mission statement. When completed, an effective mission statement will be *focused on markets rather than products, achievable, motivating, and specific*.⁵

Focused on Markets Rather Than Products The customers or clients of an organization are critical in determining its mission. Traditionally, many organizations defined their business in terms of what they made (“our business is glass”), and in many cases they named the organization for the product or service (e.g., American Tobacco, Hormel Meats, National Cash Register, Harbor View Savings and Loan Association). Many of these organizations have found that, when products and technologies become obsolete, their mission is no longer relevant and the name of the organization may no longer describe what it does. Thus, a more enduring way of defining the mission is needed. In recent years,