MARKETING STRATEGY

Text and Cases

FERRELL/HARTLINE

SEVENTH EDITION

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O.C. Ferrell
Belmont University

Michael D. Hartline
Florida State University

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Marketing Strategy: Text and Cases,
Seventh Edition
O.C. Ferrell and Michael D. Hartline

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To my wife, Linda
O.C. Ferrell

To my girls, Marsha, Meghan, Madison, and Mallory
Michael D. Hartline

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CASES

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Preface

Welcome to one of the most interesting, challenging, and important topics in your business education. What makes marketing strategy so interesting, challenging, and important you ask? To begin, marketing strategy is interesting because (1) it is inherently people-driven and (2) it is never stagnant. A distinct blend of both art and science, marketing strategy is about people (inside an organization) finding ways to deliver exceptional value by fulfilling the needs and wants of other people (customers, shareholders, business partners, society at large), as well as the needs of the organization itself. Marketing strategy draws from psychology, sociology, and economics to better understand the basic needs and motivations of these people—whether they are the organization's customers (typically considered the most critical), its employees, or its stakeholders. In short, marketing strategy is about people serving people.

For this reason, marketing strategy is interesting because it is never stagnant. The simple fact is that people change. A strategy that works today might not work tomorrow. Products that are popular today are forgotten next week. These truisms are important because truly understanding marketing strategy means accepting the fact that there are few concrete rules for developing and implementing marketing activities. Given the constant state of change in the marketing environment, it is virtually impossible to say that given "this customer need" and "these competitors" and "this level of government regulation" that Product A, Price B, Promotion C, and Distribution D will produce the best results. Marketing simply doesn't work that way. The lack of concrete rules and the ever changing economic, sociocultural, competitive, technological, and political/legal landscapes make marketing strategy a terribly fascinating subject.

Now that you know why marketing strategy is so interesting, it should be easy to see why it is also challenging. A perfect marketing strategy that is executed flawlessly can still fail. Sometimes, organizations are lucky and have success despite having a terrible strategy and/or execution. The nature of marketing can make marketing planning quite frustrating.

Finally, the importance of marketing strategy is undeniable. No other business function focuses on developing relationships with customers—the lifeblood of all organizations (even non-profits). This statement does not diminish the importance of other business functions, as they all are necessary for an organization to be successful. In fact, coordination with other functions is critical to marketing success. However, without customers, and marketing programs in place to cultivate customer relationships, no organization can survive.

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OUR FOCUS

Given this marketing landscape, *Marketing Strategy: Text and Cases*, *7th Edition* provides a practical, straightforward approach to analyzing, planning, and implementing marketing strategies. Our focus is based on the creative process involved in applying the knowledge and concepts of marketing to the development and implementation of marketing strategy. Our goal is to encourage students of marketing to think and act like a marketer. By discussing the key concepts and tools of marketing strategy, our emphasis on critical thinking, both analytical and creative, allows students to understand the essence of how marketing decisions fit together to create a coherent strategy.

Our approach in *Marketing Strategy: Text and Cases*, *7th Edition* is also grounded in the development and execution of the marketing plan. Throughout the text, we provide a comprehensive planning framework based on conducting sound background research, developing market capabilities and competitive advantages, designing integrated marketing programs, and managing customer relationships for the long term. We also emphasize the need for integrity in the strategic planning process as well as the design of marketing programs that are both ethical and socially responsible. We also stress the integration and coordination of marketing decisions with other functional business decisions as the key to achieving an organization's overall mission and vision. Throughout the text, we offer examples of successful planning and implementation to illustrate how firms face the challenges of marketing strategy in today's economy.

PURPOSE

We view strategic marketing planning not only as a process for achieving organizational goals, but also as a means of building long-term relationships with customers. Creating a customer orientation takes imagination, vision, and courage, especially in today's rapidly changing economic and technological environments. To help meet these challenges, our text approaches marketing strategy from both "traditional" and "cutting-edge" practices. We cover topics such as segmentation, creating a competitive advantage, marketing program development, and the implementation process with a solid grounding in traditional marketing, but also with an eye toward emerging practices. Lessons learned from the rise, fall, and reemergence of the dotcom sector, recent corporate scandals, and the most recent economic recession illustrate the importance of balancing the traditional and emerging practices of marketing strategy. Our text never loses sight of this balance.

Although our approach allows for the use of sophisticated research and decision-making processes, we have employed a practical perspective that permits marketing managers in any sized organization to develop and implement a marketing plan. We have avoided esoteric, abstract, and highly academic material that does not relate to typical marketing strategy decisions in most organizations. The marketing plan framework that we utilize throughout the text has been used by a number of organizations to successfully plan their marketing strategies. Many companies report great success in using our approach partially due to the ease of communicating the plan to all functional areas of the business.

TARGET AUDIENCE

Our text is relevant for a number of educational environments, including undergraduate, graduate, and corporate training courses. At the undergraduate level, our text is appropriate for the capstone course or any upper-level integrating course such as

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"Marketing Management," "Marketing Strategy," or "Marketing Policy." At this level, the text provides an excellent framework to use with our included text-based cases, live-client cases, or a computer simulation. At the graduate level, our text is appropriate for courses addressing strategic marketing planning, competitive marketing strategies, or as a supplement for any simulation-based course. A growing segment of the market, corporate training, can utilize our text when educating business professionals interested in developing marketing plans of their own, or interpreting and implementing the plans of others.

Each of the 21 cases included in our text describes the strategic situations of real-world, identifiable organizations. Because these cases feature real situations, instructors have the option of using the case material as published, or they may give students the opportunity to update the cases by conducting research to find the latest information. Many additional resources for students and instructors can be found at our text's companion website, www.cengagebrain.com.

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O.C. Ferrell (Ph.D., Louisiana State University) is University Distinguished Chair of Business Ethics at Belmont University. He recently served 9 years as University Distinguished Professor of Marketing at the Anderson School of Management, University of New Mexico. He also served at the University of Wyoming and was Chair of the Marketing Department at Colorado State University. Prior to his arrival at CSU, Dr. Ferrell was the Distinguished Professor of Marketing and Business Ethics at the University of Memphis. He has also served as a professor at the University of Tampa, Texas A&M University, Illinois State University, and Southern Illinois University. His MBA and BA degrees are from Florida State University.

Dr. Ferrell is past president of the Academic Council of the American Marketing Association and former chair of the American Marketing Association Ethics Committee. Under his leadership, the committee developed the AMA Code of Ethics and the AMA Code of Ethics for Marketing on the Internet. He is a Society for Marketing Advances Fellow and the Vice President of Publications for the Academy of Marketing Science. He is a former member of the Board of Governors as a Distinguished Fellow for the Academy of Marketing Science. He received the Cutco Vector Distinguished Marketing Educator Award from the Academy of Marketing Science. In addition, he received the first Innovative Educator award from the Marketing Management Association.

Dr. Ferrell has taught a wide variety of courses, including marketing strategy, principles of marketing, marketing ethics, international marketing, as well as most undergraduate courses in marketing. For 16 years he taught a graduate course in competitive marketing strategies at Thammasat University in Bangkok, Thailand. He has also been a visiting professor at University of Wisconsin, University of Michigan–Ann Arbor, and University of Hanover, Germany.

Dr. Ferrell is the co-author of over 20 books and more than 100 articles. His research is published in the *Journal of Marketing Research*, the *Journal of Marketing*, the *Journal of Business Ethics*, the *Journal of Business Research*, the *Journal of the Academy of Marketing Science*, as well as other journals. His *Marketing: Concepts and Strategies* text, co-authored with Bill Pride, is one of the most widely adopted principles of marketing texts in the world. Furthermore, his *Business Ethics: Decision Making and Cases* is the leading business ethics text.

Dr. Ferrell has served as an expert witness in many high-profile civil litigation cases related to marketing ethics. More recently he has assisted international corporations and worked with state regulatory agencies in modifying marketing programs to maintain compliance with both ethical and legal requirements. Currently,

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he is working with the National Association of State Boards of Accountancy to develop an ethical leadership certification for students. He has appeared on the *NBC Today* show and he has been quoted in national papers such as *USA Today*.

Dr. Ferrell and his wife Linda (also a faculty member at Belmont University) live in Nashville, Tennessee. He continues to help coordinate the Daniels Fund Ethics Initiative at the University of New Mexico. He enjoys golf, skiing, reading, and travel.

MICHAEL D. HARTLINE, PH.D.

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Michael D. Hartline (Ph.D., University of Memphis) is Interim Dean and Charles A. Bruning Professor of Business Administration in the College of Business at Florida State University. Previously, he served as Associate Dean for Strategic Initiatives and Chair of the Department of Marketing. Prior to joining the FSU faculty in 2001, Dr. Hartline served on faculty at the University of Arkansas at Little Rock, Louisiana State University, and Samford University. His MBA and B.S. degrees are from Jacksonville State University in Alabama.

Dr. Hartline primarily teaches graduate courses in Marketing Strategy and undergraduate courses in Services Marketing. He has won many teaching and research awards and made many presentations to industry and academic audiences. Dr. Hartline has also served as a consultant to several for-profit and nonprofit organizations in the areas of marketing plan development, market feasibility analysis, customer satisfaction measurement, customer service training, and pricing policy. He currently serves on the Academic Advisory Council of the Direct Selling Education Foundation and on the board of the Knight Creative Communities Initiative in Tallahassee, Florida. He has previously served on the executive committee of the Academy of Marketing Science, co-chaired two international conferences for the American Marketing Association, and has served on the editorial review boards of a number of leading marketing journals.

Dr. Hartline's research addresses marketing implementation issues in service firms. Specifically, his work examines the role of customer-contact employees and workgroups in the effective delivery of quality service to customers. Dr. Hartline's research appears in the *Journal of Marketing*, the *Journal of Service Research*, the *Journal of Business Research*, the *Journal of Relationship Marketing*, the *Journal of Services Marketing*, the *Cornell Quarterly*, the *Journal of Strategic Marketing*, the *Journal of Business Ethics*, and the *Marketing Science Institute Working Paper Series*.

Dr. Hartline and his wife Marsha live in Tallahassee with their three daughters Meghan, Madison, and Mallory. They have two dogs, Bella and Chief (both Japanese Chins), and two cats, Snickers and Sammie. Dr. Hartline is a self-professed electronics and gadget enthusiast who enjoys music, reading, computers, travel, college football (Go Seminoles!), and being a dad.

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Marketing in Today's Economy

CHAPTER 1

INTRODUCTION

As noted in the opening Beyond the Pages 1.1 story, competing in today's economy means finding ways to break out of commodity status to meet customers' needs better than competing firms. All organizations—both for-profit and nonprofit—require effective planning and a sound marketing strategy to do this effectively. Without these efforts, organizations would not be able to satisfy customers or meet the needs of other stakeholders. For example, having an effective marketing strategy allows Apple to develop popular products, such as the iPhone, iPad, iWatch, and its MacBook line of computers. Further, effective planning and strategy allows Cola-Cola to continue its leadership in soft drinks, make key acquisitions, and continue its expansion into the lucrative Chinese market. These and other organizations use sound marketing strategy to leverage their strengths and capitalize on opportunities that exist in the market. Every organization—from your favorite local restaurant to giant multinational corporations; from city, state, and federal governments, to charities such as Habitat for Humanity and the American Red Cross—develops and implements marketing strategies.

How organizations plan, develop, and implement marketing strategies is the focus of this book. To achieve this focus, we provide a systematic process for developing customer-oriented marketing strategies and marketing plans that match an organization to its internal and external environments. Our approach focuses on real-world applications and practical methods of marketing planning, including the process of developing a marketing plan. The chapters of this book focus on the steps of this process. Our goal is to give the reader a deeper understanding of marketing planning, the ability to organize the vast amount of information needed to complete the planning process, and an actual feel for the development of marketing plans.

In this first chapter, we review some of the major challenges and opportunities that exist in planning marketing strategy in today's economy. We also review the nature and scope of major marketing activities and decisions that occur throughout the planning process. Finally, we look at some of the major challenges involved in developing marketing strategy.

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BEYOND THE PAGES 1.1

Thriving in Commodity Hell[1]

Have you noticed that regardless of the industry, most goods and services offered by competing companies are eerily the same? Most household appliances, such as refrigerators, washing machines, and stoves, offer the same basic features and come in white, beige, black, or stainless steel. Virtually all Android-based smartphones offer the same features at similar prices. Even airline flights from New York to Los Angeles are essentially the same. Everywhere you look, most companies offer the same basic products to the same customer groups at roughly the same prices. This situation is referred to as "commodity hell" and it's a tough situation for most companies. Commoditization is everywhere and is the result of mature markets where goods and services lack any real means of differentiation. Unfortunately for companies, when customers begin to see all competing products as offering roughly the same benefits, price is the only thing that matters.

Commoditization is a consequence of mature industries where slowing innovation, extensive product assortment, excess supply, and frugal consumers force margins to the floor. Since firms have few competitive differences, they are unable to increase margins. They must also spend a great deal on promotion to attract new customers. This situation makes firms more vulnerable to the entry of new competitors. Consider the airline industry. Notwithstanding a few minor differences, most air travelers see all airlines as being roughly the same. They all get passengers from Point A to Point B while offering the same basic customer services. This makes price the driving force in consumer decision-making and allows discount airlines such as Southwest and Jet Blue to steal customers away from traditional full-service carriers. This same precarious situation exists in a broad range of industries including telephone service, hotels, packaged goods, automobiles, household appliances, and retailing.

As you might expect, low price leaders can do quite well in commoditized markets. Southwest, for example, was profitable for over 33 years until the economic recession hit the industry hard in 2008. To counteract the downturn, Southwest expanded routes by acquiring rival companies such as AirTran. The company also stands apart from others with its innovative "No Bag Fees" policy. Other firms, however, avoid commodity status through the most basic of marketing tactics: brand building. Here, firms break free from commodity status by developing a distinctive brand position that separates them and their products from the competition. Firms that come to mind are Apple, Coca-Cola, and Chick-fil-A. By offering compelling reasons for consumers to buy products, brand building allows firms to increase margins. Apple, in particular, enjoys the highest profit margins of any firm in the technology sector.

Starbucks is another case in point. Starbucks clearly sells one of the most commoditized, ubiquitous products of all time: coffee. Starbucks Chairman Howard Schultz, however, does not accept that his firm is in the coffee business. Instead, Schultz sees Starbucks as a "third place" to hang out (with home and work being number 1 and number 2, respectively). Through this mentality, Starbucks offers its customers much more than coffee, including wireless Internet access, music, food, and relaxation. Starbucks has continued its brand-building activities by introducing breakfast combos, Via instant coffee, and the continued push of its Seattle's Best brand into restaurants, offices, hospitals, and vending machines.

Getting out of commodity hell is not an easy feat. To do so, firms must give consumers a compelling reason to buy their products over competing products. Ultimately, winning the commodity game is all about innovation. Consider the firms that top *Fast Company*'s list of the World's Most Innovative Companies for 2014 (in order): Google, Bloomberg Philanthropies, Xiaomi, Dropbox, Netflix, Airbnb, Nike, and ZipDial. Each of these companies offers innovative products, processes, or experiences that stand apart from the competition; yet each competes in mature industries known for commoditization. These companies prove that innovation and good marketing strategy are the antidotes for commodity hell.

THE CHALLENGES AND OPPORTUNITIES OF MARKETING IN TODAY'S ECONOMY

Traditional ideas about marketing strategy began to change forever during the mid-1990s. Advances in computer, communication, and information technology forever

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changed the world and the ways that marketers reach potential customers. The collapse of the dot-com bubble in the late 1990s was followed by a historic collapse of the worldwide economy in 2008. The powerhouse companies of the past have weakened and lost relevance in an economy marked by constant change and consumer skepticism. Consider the following fundamental changes to marketing and business practice, as well as our own personal buying behavior.

Power Shift to Customers

Perhaps the single most important change during the last two decades is the shift in power from marketers to consumers. Rather than businesses having the ability to manipulate customers via technology, customers often manipulate businesses because of their access to information, the ability to comparison shop, and the control they have over spending. Individual consumers and business customers can compare prices and product specifications in a matter of minutes. Using a smartphone and the Amazon app, customers can walk Target's aisles, scan bar codes to check prices on Amazon, and order items for 2-day delivery while in the store. This fact is the reason that Target, and other retailers like Best Buy, now price matches Amazon and other online competitors. In other cases, customers are able to set their own prices, such as purchasing airline tickets at Priceline.com. Customers can now interact with one another, as merchants such as Amazon and eBay allow customers to share opinions on product quality and supplier reliability. As power continues to shift to customers, marketers have little choice but to ensure that their products are unique and of high quality, thereby giving customers a reason to purchase their products and remain loyal to them.

Daniel Koebe/Fancy/Corbis

Consumers can instantly find competitors' prices while in the store.

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Massive Increase in Product Selection

The variety and assortment of goods and services offered for sale on the Internet and in traditional stores is staggering. In grocery stores alone, customers are faced with countless options in most aisles, such as in cereal and soft drinks. The growth in online retailing now allows customers to purchase a car from CarsDirect, handmade gifts from over 1.2 million shops on Etsy, or a case of their favorite wine from Wine.com. Increased transaction efficiency (e.g., 24/7 access, delivery to home or office even on weekends) allows customers to fulfill their needs more easily and conveniently than ever before. Furthermore, the vast amounts of information available online has changed the way we communicate, read the news, and entertain ourselves. Customers can now have the news delivered to them automatically via smartphone apps, such as Flipboard, that pull from hundreds of sources. This radical increase in product selection and availability has exposed marketers to inroads by competitors from every corner of the globe.

Audience and Media Fragmentation

Changes in media usage and the availability of new media outlets have forced marketers to rethink the way they communicate with potential customers. Since the advent of cable television in the 1970s, mass media audiences have become increasingly fragmented. Television audiences, for example, shifted from the big three networks (ABC, CBS, NBC) and began watching programming on ESPN, HGTV, Nickelodeon, and the Discovery Channel. When the growth of the Internet, satellite radio, and mobile communication is added to this mix, it becomes increasingly difficult for marketers to reach a true mass audience. Media audiences have become fragmented due to (1) the sheer number of media choices we have available today, and (2) the limited time we have to devote to any one medium. Today, customers increasingly get information and news from Facebook and Twitter rather than the *New York Times* or CBS. They spend a growing amount of time interacting with handheld devices than they do reading magazines, listening to the radio, or watching television. As shown in Exhibit 1.1, consumer usage of traditional media is declining, while the usage of mobile media is on the rise. However, despite the challenge of reaching mass audiences today, media fragmentation does have a big advantage: It is easier to reach small, highly targeted audiences who are more receptive to specific marketing messages.

Changing Value Propositions

Even before "The Great Recession" began in 2008, consumers and business buyers were already facing increasing costs associated with energy, food, building

EXHIBIT 1.1 Change in Daily Media Usage by U.S. Adults, 2010–2014.

	Percent Change (%)
Television	3.7
Desktop Online	–13.6
Tablets	676.2
Smartphones	235.0
Radio	–15.5
Newspapers	–9.4
Magazines	–34.9

SOURCE: Statista, "Average Daily Media Use in the United States from 2010 to 2014," Statista, http://www.statista.com/statistics/270781/average-daily-media-use-in-the-us/, accessed February 18, 2015.

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materials, and other essentials. Then, as the economy weakened, buyers were forced to tighten their belts and look for other ways to lower expenses. This trend actually began after the dot-com collapse as consumers saw for the first time that they could bypass some types of firms and do things for themselves. For example, travel agents and real estate agents have been hit hard by e-commerce. Many customers now turn to Travelocity and Expedia, rather than travel agents, for assistance in booking airline tickets, cruises, or hotel stays. A similar change has taken place in the real estate industry as buyers are moving their house hunting online, while sellers are increasingly taking the "for sale by owner" route. Consequently, many marketers learned a tough lesson: In situations where customers see goods and services as commodities, they will turn to the most convenient, least-expensive alternative.

Today, many of these same consumers face pay cuts or losing their jobs in addition to increased expenses. These and other economic hardships have forced consumer and business buyers to rethink value propositions and focus on the importance of frugality. The effects on business have been dramatic. For example, Radio Shack filed for Chapter 11 bankruptcy in early 2015 in the face of a highly commoditized market and stiff competition from other electronics retailers, particularly Amazon.[2] A similar shakeout is happening in the book retailing segment. Borders, for instance, closed its doors after fierce competition from Barnes & Noble, Amazon, Walmart, and Target lured its shoppers away. Likewise, e-book readers, like Amazon's Kindle, have had a profound impact on traditional book publishing. Because books have become highly commoditized, consumers typically search for the lowest prices rather than the fringe benefits offered by traditional bookstores. E-book readers add to that by being more ecologically advantageous. This is the essence of being frugal, as customers look for ways to cut spending on unnecessary parts of their lives.

Shifting Demand Patterns

In some cases, changes in technology have shifted customer demand for certain product categories. News is one well-known example, where traditional newspapers are slowly disappearing while online and mobile news continues to grow. Now, many newspaper companies have folded, some are on the brink of folding, while others have cut publication to only a few days per week. Another example is the explosive growth in the digital distribution of music and video. The success of Apple's iTunes, YouTube, Spotify, and Netflix, along with the continuing integration of television and computers, has dramatically shifted demand for the music and movie industries. Hollywood film studios are grappling with soft demand in theaters and the declining popularity of DVDs as customers increasingly look for online movie options, or for other forms of entertainment such as video games. This trend ultimately led to the demise of industry pioneer Blockbuster video in 2011.

Privacy, Security, and Ethical Concerns

Changes in technology have made our society much more open than in the past. As a result, these changes have forced marketers to address real concerns about security and privacy, both online and offline. The fallout from the massive data breach at Target in 2013 is still being felt today. The estimated loss to Target from thieves hacking into its systems is roughly $148 million, not to mention the losses incurred by Target's customers.[3] Further, businesses have always collected routine information about their customers. Now, customers are much more attuned to these efforts and the purposes for which the information will be used. Though customers appreciate the convenience of e-commerce and mobile access to information, they want assurances that their information is safe and confidential. Concerns over privacy and security are especially acute with respect to online businesses such as Facebook, Google, mobile banking,

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EXHIBIT 1.2 The Children's Online Privacy Protection Act (COPPA).

The Children's Online Privacy Protection Act applies to operators of commercial websites and online services that attempt to collect personal information from children under the age of 13. The law explains what must be included in the firm's privacy policy, when and how to seek verifiable consent from a parent or guardian, and the firm's responsibilities to protect children's privacy and safety. Firms cannot evade the law's provisions by claiming that children under 13 cannot visit their sites, nor can they make information optional or ask the visitor's age.

In implementing the provisions of COPPA, the FTC issued the Children's Online Privacy Protection Rule, which is designed to give parents control over the information that is collected from their children. The rule requires website operators to:

1. Determine if their company is a website or online service that collects personal information from kids under 13.
2. Post a privacy policy that complies with COPPA.
3. Notify parents directly before collecting personal information from their kids.
4. Get parents' verifiable consent before collecting information from their kids.
5. Honor parents' ongoing rights with respect to information collected from their kids.
6. Implement reasonable procedures to protect the security of kids' personal information.

SOURCE: United States Federal Trade Commission, Bureau of Consumer Protection, http://www.ftc.gov/tips-advice/business-center/guidance/childrens-online-privacy-protection-rule-six-step-compliance, accessed February 18, 2015.

and mobile devices that can potentially track every move we make, literally. These same concerns are also keen with respect to children. For example, many well-known and respected companies, including Mrs. Fields Cookies, Sony BMG, and Hershey Foods, have been fined for violating the standards of the Children's Online Privacy Protection Act (COPPA). For example, Playdom, Inc., an online gaming company owned by Disney, paid a $3 million fine to the Federal Trade Commission for collecting, using, and disclosing personal information from children under the age of 13 without their parents' permission. This was the largest civil penalty ever levied for a violation of COPPA, which is overviewed in Exhibit 1.2.[4]

Unclear Legal Jurisdiction

When a company does business in more than one country (as many Internet-based firms do), that company often faces a dilemma with respect to differing legal systems. Today, this difference is especially keen for firms that do business in both the United States and China. Google, for example, faces a difficult situation in dealing with the Chinese government's censorship demands. Though Google is a U.S. firm, it must comply with the Chinese request by operating a completely separate search service that censors information considered sensitive by the Chinese government.[5] Doing business in China is also an issue with respect to protection of intellectual property rights, where Chinese laws do not offer the same protections found in the United States. For example, the U.S. International Trade Commission estimates that Chinese piracy costs the U.S. economy in excess of $48 billion each year. Most of this is in the information sector, with high-tech and manufacturing also showing sizable losses due to infringements of intellectual property rights by Chinese firms.[6]

Another important legal issue involves the collection of sales tax for online transactions. In the early days of e-commerce, most online merchants did not collect sales taxes for online transactions—giving them a big advantage against store-based merchants. In fact, a 1992 U.S. Supreme Court decision exempted out-of-state retailers from collecting sales taxes in states where they had no physical presence. States countered that they were losing millions in yearly tax revenue, but were poorly organized to mount a collection effort. In 2003, major retailers—including

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Walmart, Target, and Toys "R" Us—in an agreement with a consortium of 38 states and the District of Columbia, agreed to collect online sales taxes. However, many online merchants still did not charge sales taxes. Today, states—much more organized than before—estimate that they lose a collective $23 billion per year in lost tax revenue. Amazon, for example, still collects sales tax from only 74 percent of U.S. consumers.[7]

Although the full effect of these challenges will not be recognized for some time, circumstances have forced businesses to move ahead by adjusting their marketing activities at both the strategic and tactical levels. As we review the major marketing concepts and activities in this chapter, we will look at how today's challenges have affected strategic planning in these areas.

BASIC MARKETING CONCEPTS

Marketing is many different things. Many people, especially those not employed in marketing, see marketing as a function of business. From this perspective, marketing parallels other business functions such as production/operations, research, management, human resources, and accounting. As a business function, the goal of marketing is to connect the organization to its customers. Other individuals, particularly those working in marketing jobs, tend to see marketing as a process of managing the flow of products from the point of conception to the point of consumption. The field's major trade organization, the American Marketing Association, has changed the definition of marketing over time to reflect changes in the economic and business environments. From 1985 until 2005, the AMA defined marketing this way:

> *Marketing is the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational objectives.*[8]

Note how this definition focuses on the four Ps, or the marketing mix (product, price, place, and promotion). In 2005, the AMA changed the definition to better reflect the realities of competing in the marketplace:

> *Marketing is an organizational function and a set of processes for creating, communicating, and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders.*[9]

This definition shifts the focus away from the marketing mix and toward value creation for customers. In 2007, the AMA changed the definition of marketing again:

> *Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.*[10]

Notice that the changes in the definition are not merely cosmetic in nature. The older definitions focused on the process of marketing to deliver value and manage customer relationships. The most recent definition shifts from "value" to "offerings that have value." Also, the notion of stakeholders is made more explicit. Why would the AMA make these changes? One reason has to do with commoditization as discussed in Beyond the Pages 1.1. Breaking free from commodity status means finding ways to differentiate the offering. The new definition recognizes that differentiation can come from any part of the offering, whereas older conceptualizations of marketing placed the burden of differentiation on the product itself. The second reason has to do with marketing's broader role in today's corporation. Firms don't just sell products; they sell the firm as a whole. Corporate relationships with partners, media, government, investors, employees, and society are every bit as important as relationships with customers. These types of relationships—which grow and thrive on

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exceptional value—are an absolute necessity in the commodity-driven status of many product markets. While the older definitions of marketing had a decidedly transactional focus, the new definition emphasizes long-term relationships that provide value for both the firm and its stakeholders.

A final way to think about marketing relates to meeting human and social needs. This broad view links marketing with our standard of living, not only in terms of enhanced consumption and prosperity, but also in terms of society's well-being. Through marketing activities, consumers can buy cars from South Korea and wines from South Africa; and organizations can earn a viable profit, making both employees and shareholders happy. However, marketing must also bear responsibility for any negative effects it may generate. This view demands that marketers consider the social and ethical implications of their actions, and whether they practice good citizenship by giving back to their communities. As exemplified in the New Belgium Brewing case associated with this text, firms can successfully meet human and social needs through socially responsible marketing and business practices.

Let's take a closer look at several basic marketing concepts. As we will see, ongoing changes in today's economy have forever altered our way of thinking about these foundational aspects of marketing.

What Is a Market?

At its most basic level, a **market** is a collection of buyers and sellers. We tend to think of a market as a group of individuals or institutions that have similar needs that can be met by a particular product. For example, the housing market is a collection of buyers and sellers of residential real estate, while the automobile market includes buyers and sellers of automotive transportation. Marketers or sellers tend to use the word "market" to describe only the buyers. This basic understanding of a market has not changed in a very long time. What has changed, however, is not so much the "what" but the "where" of a market; that is, the location of the buyers and sellers. In both consumer markets (like housing and automobiles) and business markets (like replacement parts and raw materials), the answer to the "where" question is quickly becoming "anywhere" as markets become less defined by geography.

Until recently, marketers have considered a market to be a physical location where buyers and sellers meet to conduct transactions. Although those venues (e.g., grocery stores, malls, flea markets) still exist, technology mediates some of the fastest growing markets. Early in the beginning of the dot-com era, the term **marketspace** was coined to describe these electronic marketplaces unbound by time or space.[11] Today, we refer to these electronic marketplaces as online markets or e-commerce. In e-commerce, physical goods, services, and information are exchanged through the Internet. Some of the largest marketspaces, such as Amazon, eBay, and Monster, are now household names. In fact, Amazon has become the e-commerce equivalent of a shopping mall as the company now sells shoes, apparel, jewelry, beauty aids, and sporting goods in addition to its traditional offerings of books and electronics. E-commerce also exists in the business-to-business realm. The shift from physical to electronic marketplaces has significant ramifications for marketers. The fact that customers can shop, place orders, and exchange information 24/7 means that these businesses must be capable of operating in that same time frame. In effect, online markets never take a break at closing time—they never close. It also means that firms lose some control over the information that is disseminated about their company or products. Through blogs, discussion forums, or even Twitter, customers can exchange information about an online merchant outside the merchant's own website. Furthermore, the substitution of technology for human interaction can be both a blessing and a curse. Some sites, like CarsDirect, are successful because they eliminate the hassle of dealing with another human in the buying process. Many customers, however, have been slow to embrace electronic

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EXHIBIT 1.3 Common Metamarkets and Participants.

	Metamarkets		
	Automotive	Home Ownership	Parenting
Metamediaries	www.edmunds.com www.carsdirect.com www.kbb.com	www.realtor.com www.zillow.com www.bhg.com	www.parenting.com www.babycenter.com newparent.com
Metamarket Participants	Buyers Manufacturers Car dealerships Banks Credit unions Credit reporting services Insurance firms Rating services Magazines Television programs Aftermarket parts/accessories Repair services Car rental firms Auction houses	Homeowners Builders Real estate agents Mortgage companies Insurance companies Home inspectors and appraisers Pest control services Magazines Television programs Retailers	Parents Doctors Retailers Baby supply manufacturers Insurance firms Financial planners Educational providers Toy manufacturers Television programs Movies

markets because they lack the human element. In these cases, the design and implementation of the online experience is a serious challenge for online firms. Finally, the wealth of information available through e-commerce not only makes customers more educated than ever before, but also gives customers increased power through comparison shopping and price negotiation.

Another interesting shift related to markets is the advent of metamarkets and metamediaries. A **metamarket** is a cluster of closely related goods and services that center around a specific consumption activity. A **metamediary** provides a single access point where buyers can locate and contact many different sellers in the metamarket.[12] Assume for example that you are engaged to be married. How many different buying decisions will you and your fiancé have to make in the coming months? How many newspaper ads, websites, and magazines will you explore? Although the businesses and decisions are diverse, they all converge on the single theme of wedding planning. This is the driving principle behind a metamarket. Exhibit 1.3 shows examples of common metamarkets and metamediaries. Although customers don't use these terms, they fully understand the concept of finding information and solutions in one place. For example, Parenting.com has become the Internet's preeminent metamediary for information and advice related to parenting, pregnancy, and children. Similarly, Edmunds.com is a popular site devoted to all things related to buying and owning a vehicle. Metamediaries like these fulfill a vital need by offering quick access and one-stop shopping to a wide variety of information, goods, and services.

What Is Exchange?

Closely related to the concept of a market, our ideas about exchange have changed in recent years. **Exchange** is traditionally defined as the process of obtaining something of value from someone by offering something in return; this usually entails obtaining products for money. For exchange to occur, five conditions must be met:

1. **There must be at least two parties to the exchange**. Although this has always been the case, the exchange process today can potentially include an unlimited number of participants. Online auctions provide a good example. Customers who bid on an item at eBay may be one of many participants to the

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exchange process. Each participant changes the process for the others, as well as the ultimate outcome for the winning bidder. Some auctions include multiple quantities of an item, so the potential exists for multiple transactions within a single auction process.

2. **Each party has something of value to the other party**. Exchange would be possible, but not very likely, without this basic requirement. The Internet has exposed us to a vast array of goods and services that we did not know existed previously. Today, not only can we buy a television or stereo receiver from a local merchant; we also have access to hundreds of online merchants. Furthermore, the ability to comparison shop products and their prices allows customers to seek out the best value.
3. **Each party must be capable of communication and delivery**. The advantages of today's communication and distribution infrastructure are amazing. We can find and communicate with potential exchange partners anywhere and anytime via telephone, computers, interactive television, and smartphones. We can also conduct arm's-length transactions in real time, with delivery of exchanged items occurring in a matter of hours if necessary. For example, you can text message an order to Pizza Hut on your way home from work.
4. **Each party must be free to accept or reject the exchange**. In the online world, this condition of exchange becomes a bit more complicated. Customers have grown accustomed to the ease with which they can return items to local merchants. Easy return policies are among the major strengths of traditional offline merchants. Returning items is more difficult with online transactions. In some cases, the ability to reject an exchange is not allowed in online transactions. Ordering airline tickets on Priceline.com and winning a bid on an item at eBay are contractually binding acts for the customer. Apple has a no refunds policy in its App Store. In other words, once the actual purchasing process has started, the customer is not free to reject the exchange.
5. **Each party believes it is desirable to exchange with the other party**. Customers typically have a great deal of information about, or even a history with, offline merchants. In online exchange, customers often know nothing about the other party. To help resolve this issue, a number of third-party firms have stepped in to provide ratings and opinions about online merchants. Services such as BizRate and Epinions not only provide these ratings, but also provide product ratings and serve as shopping portals. eBay and Amazon go one step further by allowing buyers and sellers to rate each other. This gives both parties to the exchange process some assurance that reputable individuals or organizations exist on the other side of the transaction.

The bottom line is that exchange has become all too easy in today's economy. Opportunities for exchange bombard us virtually everywhere we go. Customers don't even have to trouble themselves with giving credit cards or completing forms for shipping information. Most online merchants will remember this information for us if we let them. For example, Amazon's 1-Click® ordering feature allows customers to purchase products with a single mouse click.[13] The ease with which exchange can occur today presents a problem in that individuals who do not have the authority to exchange can still complete transactions. This is especially true for underage customers.

What Is a Product?

It should come as no surprise that the primary focus of marketing is the customer and how the organization can design and deliver products that meet customers' needs. Organizations create essentially all marketing activities as a means toward this end; this includes product design, pricing, promotion, and distribution. In short, an organization would have no reason to exist without customers and a product to offer them.

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