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Marketing

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Marketing

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Preface

Why This Book?

Why did EBS choose this book? Chances are, it was for one or more of the following reasons:

- EBS wants to give you the necessary tools and frameworks to enable you to be an effective contributor to marketing decision making, whether as an entrepreneur or in an established firm. This book's **focus on decision making** sets it apart from other texts that place greater emphasis on description of marketing phenomena than on the strategic and tactical marketing decisions that marketing managers and entrepreneurs must make each and every day.
- EBS wants to use the most current and most **Web-savvy** book available. We integrate the latest new-economy developments into each module. In addition, we supplement the book with an interactive website to help you learn. Our goal is to make both the latest Web-based tools as well as time-tested marketing principles relevant to those of you who will work in either old – or new – economy companies.
- EBS appreciates and believes you will benefit from the **real-world, global perspectives** offered by the authors of this book. Our combined entrepreneurial, marketing management and consulting experience spans a broad variety of manufacturing, service, software and distribution industries and has taken us – and thereby you, the reader – around the world many times over.

As the reader will see from the outset in Module 1, marketing decision making is a critical activity in every firm, including start-ups, not just in big companies with traditional marketing departments. Further, it is not just marketing managers who make marketing decisions. People in nearly every role in every company can have powerful influence on how happy its customers are – or are not – with the goods and services the company provides. Stockbrokers must attract new customers. Accounting and consulting firms must find ways to differentiate their services from other providers so their customers have reasons to give them their business. Software engineers developing the next great Internet or other technology must understand how their technology can benefit the intended customer, for without such benefits, customers will not buy. Thus, we have written this book to meet the marketing needs of readers who hope to make a difference in the long-term strategic success of their organisations – whether their principal roles are in marketing or otherwise.

In this brief preface, we want to say a bit more about each of the three distinctive benefits – bulleted above – that this book offers its readers.

A Focus on Decision Making

This revised edition of *Marketing* retains the strategic perspectives that have marked the earlier editions, while providing, in each module, specific tools and frameworks for making marketing decisions that take best advantage of the conditions in which the firm finds itself

– both internally, in terms of the firm’s mission and competencies and externally, in terms of the market and competitive context in which it operates.

This **decision-focused approach** is important to students and executives who are our readers. Our decision-focused approach is also important to employers, who tell us they want today’s graduates to be prepared to ‘hit the ground running’ and contribute to the firm’s decision making from day one. The ability to bring thoughtful and disciplined tools and frameworks – as opposed to seat-of-the-pants hunches or blind intuition – to marketing decision making is one of the key assets today’s business school graduates offer their employers. This book puts the tools in the toolbox to make this happen. In the end, employers want to know what their new hires can *do*, not just what they *know*.

Web-Savvy Insights

Because this book has been written by authors who teach at Web-savvy institutions and work with Web-savvy companies, it brings a realistic, informed and **Web-savvy perspective** to an important question many students are asking: ‘Has the advent of the Internet changed all the rules?’ Our answer is, ‘Well, yes and no.’ On one hand, the Internet has made available a host of new marketing tools – from banner ads to email marketing to delivery of digital goods and services over the Internet – many of which are available to companies in the so-called old and new economies alike. On the other hand, time-tested marketing fundamentals – such as understanding one’s customers and competitors and meeting customer needs in ways that are differentiated from the offerings of those competitors – have become even more important in the fast-moving, dot-com world, as the many dot-com failures over the last few years attest.

Thus, throughout the book, we integrate examples of new-economy companies – both successful and otherwise – to show how both yesterday’s and today’s marketing tools and decision frameworks can most effectively be applied.

A Real-World, Global Perspective

Theory is important, because it enhances our understanding of business phenomena and helps managers think about what they should do. It is in the application of theory – the world of marketing practice – where we believe this book excels. Our decision focus is all about application. But we don’t just bring an academic perspective to the party, important as that perspective is.

Two of us on the author team, Orville Walker and John Mullins, have started successful entrepreneurial companies. One of these firms has ‘gone public.’ Orville Walker worked for many years in the United States, at the University of Minnesota. John Mullins works in Europe at the London Business School. Barbara Jamieson brings to this fully updated and revised edition her deep global understanding of distance learning to round out the picture. All of us have contributed the fruits of our research to the growing body of knowledge in the marketing management, marketing strategy, new products and entrepreneurship arenas. The result of our collective and varied experience and expertise is a book marked by its real-world, global perspective. The book’s many examples of real people from around the world making real strategic marketing decisions include examples of start-ups and high-growth companies as well as examples of larger, more established firms.

Introduction to this Course

This marketing distance learning study programme is based on the seventh edition of the book **Marketing Management: A Strategic Decision-Making Approach**.¹

The programme has the following objectives:

1. To provide a strategic, globally informed understanding of the marketing management process.
2. To develop an awareness of the analytical process used to identify opportunities and threats in the firm's marketing environment which may influence profitability and market position.
3. To learn how to segment and target markets as well as position the firm's product(s) against market needs and competitive offerings.
4. To develop appropriate marketing strategies for exploiting opportunities and overcoming threats, especially those relating to new entries, growth markets, mature/declining markets and global markets.
5. To prepare strategic marketing programmes based on the components of product, price, channels and promotion.
6. To develop an understanding of the activities and organisational structures required to implement, monitor and control strategic marketing programmes.

The contents of this publication are organised around the above objectives on a sequential basis. It contains 19 modules that are structured around the 19 chapters in the text cited above. These modules are divided into five parts as follows:

1. An Overview of Marketing Management
2. Market Opportunity Analysis
3. Developing Strategic Marketing Programmes
4. Strategic Marketing Programmes for Selected Situations
5. Implementing and Controlling Strategic Marketing Programmes

In addition to an opening case of a real-world company that brings to life the key principles addressed in the module, each module contains seven sections: (1) a statement of module objectives; (2) the main text; (3) a learning summary; (4) end-of-module content questions; (5) end-of-module multiple-choice questions; (6) end-of-module application questions and case(s); and (7) extensive endnotes that point the way to supplementary readings. Real-world case studies and examples are employed throughout to bring marketing principles and practices to life. They feature companies large and small from around the world, and are designed to facilitate learning about a particular marketing activity. They should also help individual students apply what is being learned to their own organisations.

¹ Written by John W. Mullins and Orville C. Walker, Jr. Published by and copyright Irwin/McGraw-Hill, Burr Ridge, IL (2010).

Instructions on Using the Study Programme Materials

Before studying any of the module materials, we suggest that you read the Preface (reproduced before this Introduction) which discusses the authors' rationale in using a strategic approach in writing (and revising) the text component of this study programme's materials. The material in the Preface will help you understand how the course merges the traditional approach to marketing management with the authors' newer, more relevant and more pragmatic strategic approach.

You should prepare yourself for studying Module 1 – and each successive module – by reading the first two sections of the module: the opening case and the learning objectives. In the process of doing so, try to relate the content of these sections – especially the one on the module's learning objectives – to how marketing interacts with other functional areas in your organisation such as finance and production.

When you finish this brief exercise, read carefully and thoroughly the main text of Module 1 (and each successive module). Some students find it desirable to read certain modules twice – once through quickly, and then a second, more careful reading. Some find it helpful to take notes or even outline the module. You should do whatever you feel provides the best results. Upon completion of your study of the module, you should proceed to the third section of the module which contains a learning summary of the module.

You are now ready to be examined on how well you understand the module and can apply its content to the real world. The answers to all three sets of test material in each module are contained in Appendix 1. The first two sets of test material involve the use of content and multiple choice questions which test – in different ways – your knowledge of the meaning of certain terms, your memory concerning important marketing concepts and facts and your ability to understand certain applications of the materials presented. You should write your answers down and then compare them to the answers contained in Appendix 1. Note any discrepancies between your answers and those provided and reconcile them by referring to the appropriate text material.

The next set of test material comprise application questions and minicases. They are concerned with how well you can apply module content to realworld problem situations. They are, by design, more analytical than the materials used in the first two sets of questions. Again, you should write down your answers and compare them with the answers given in Appendix 1. Since Appendix 1 gives the number of the module section where the correct answers to the content and multiple choice questions can be found, you should not have any difficulty in reconciling any differences with respect to these sets of materials. The summary outline of the text at the end of each module should prove helpful in enabling you to locate the appropriate materials in reconciling your answers to the application questions and the case studies.

Conclusion

The time required to complete a module will, of course, vary between students – and even for the same student with regard to different modules. On average, we would expect you to spend a relatively short period of time studying the first two sections of the module, including thinking about their application to your organisation. You should be prepared to spend at least two to three hours studying the module's content. Some of this time will be spent in transferring what you are reading to your own job situation. The self-examination part of the learning procedure (the three batteries of questions at the end of each module) will take probably another two hours or more depending upon how much reviewing is necessary.

As you proceed through the modules, you may find it desirable, even necessary, to review certain parts of earlier modules. Thus, some of the later modules may well require additional study time. If you continuously try to apply what you are learning to your organisation, you will find yourself learning a great deal more not only about marketing, but about your organisation as well. We would hope that you will involve, where you feel it is appropriate, knowledgeable business people (including those in the organisation where you are employed) in your pursuit of an understanding of marketing management. We also hope that at the conclusion of the course you will be satisfied with what you have learned about this subject and feel confident in your ability to apply the basic concepts included in the text.

After completing your study of the 19 modules, you are now ready to take the two practice examinations (Appendix 2). *A word of caution* – be sure you thoroughly review all modules including the answers to the three test batteries before taking these exams.

For those of you wanting more exposure to certain marketing subjects, each module's references represent a major resource. These references not only identify a large number of useful and recent articles from a wide range of academic journals and business publications, but also refer to the best specialised textbooks which are concerned with the various marketing areas such as product development, marketing research, sales management, channels of distribution and advertising.

Acknowledgements

Simply put, this book is not solely our work. Far from it. Many of our students, colleagues and those with whom we work in industry have made contributions that have significantly shaped our perspectives on marketing decision making. We are grateful to all of them.

We also thank a small army of talented people at Irwin/McGraw-Hill and Edinburgh Business School (EBS) for their work that has turned our rough manuscript into an attractive and readable book.

Finally, we thank Harper Boyd, co-author and originator of this course text's first edition, without whom this book would not exist and our parents, without whom, of course, none of us would be here. To all of you we extend our love, our respect and our gratitude for passing on to us your curiosity and your passion for learning. We therefore dedicate this book to Harper Boyd, to Jeannette and Orville Walker, Sr, to Jack and Alice Mullins, and to Brian and Joan Jamieson.

John Mullins

Orville C. Walker, Jr

Barbara Jamieson

PART I

An Overview of Marketing Management

Module 1 The Marketing Management Process

Module 2 Corporate Strategies and Their Marketing Implications

Module 3 Business Strategies and Their Marketing Implications

The Marketing Management Process

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RedEnvelope – Marketing Upscale Gifts Online¹

A few years ago two recent MBA graduates started a company called 911 Gifts. The firm combined a website and a toll-free customer service centre with gifts provided by two established merchants to cater to last-minute crisis shoppers. Although the new company attracted gift-givers, it also had some weaknesses: The company name, with its connotation of wailing ambulances, turned off many potential customers; the firm's suppliers provided an uninspired assortment of gifts; and a lack of capital inhibited the company's ability to grow. As a result, by its second year the firm was treading water. The site had managed only about \$1 million in sales the previous year. Consequently, the owners decided to reinvent the company.

A New Mission and Strategy

The owners' first move was to hire a marketing-savvy chief executive officer. They attracted Hilary Billings, a 36-year-old manager, away from Williams-Sonoma where she had successfully developed the firm's Pottery Barn catalogue operation.

After analysing 911 Gifts' strengths and weaknesses, she crafted a new mission and competitive strategy for the company. Instead of positioning itself as a centre for emergency gifts, the firm would aim for upscale elegance. Further, it would try to broaden the definition of gift-giving opportunities. 'Most online retailers are inherently self-purchase,' Ms. Billings says. They 'repurpose themselves just before Christmas as gift companies. There's a big difference between that and a company that thinks only about gifts.'

Within six weeks of becoming CEO, Ms. Billings had developed marketing and business plans detailing how the firm would accomplish its new strategic mission and had hired the core of a new management team. She then made the rounds of Silicon Valley's venture capitalists with a slide show detailing the company's new plans and subsequently

obtained \$21 million in new financing from Sequoia Capital and \$10 million from Weston Presidio in exchange for approximately a one-third ownership of the company.

The New Marketing Plan

The Target Market

Consistent with the firm's new strategic mission, it targeted its marketing efforts at a more selective segment of potential customers. The new target market was similar to the one Ms. Billings knew from her days at Williams-Sonoma: high income (over \$85 000 per year), well-educated professionals, including both men and women. The focus was also on people who were connected to the Internet and had a history of buying online.

To understand the needs and preferences of the firm's target customers, managers did a little qualitative marketing research, informally interviewing some prospective customers and analysing past sales patterns. But initially the firm relied more heavily on the customer knowledge its managers had gained through past experience. 'We talked about our [target] customer in a very intimate way,' one manager recalls. 'What kind of clothes they wore, what kind of car they drove. We put up a poster labelled "him" and "her" and we'd put Post-it Notes under each with products we thought they'd want to buy.'

The New Product Line and Company Brand

Armed with information and intuition concerning the desires of the target market, company managers set about upgrading the product line. A variety of suppliers were contracted to provide products that reflected a high-quality, upscale point of view: things such as amber heart necklaces, old-fashioned thermometers, and seven stalks of bamboo – an Asian symbol of good luck in a crystal vase for \$46. The firm also partnered with suppliers to develop its first wave of exclusive merchandise: a series of gift baskets that might be described as 'lifestyle kits.' For instance, for fishing fanatics they developed a fishing creel filled with 12 hand-cut fish-shaped cookies for \$48.

Another criterion the firm used to reorganise its product offerings was a high gross margin. Most of the firm's products carry margins of 50 per cent or more, a necessary offset for lavish spending on customer service, which Ms. Billings says is unavoidable. 'You have to own your customer's experience – and that comes at a price.' About half of the 450 stock keeping units (SKUs) that 911 Gifts had been selling were dropped, and more than 300 items were added.

To simplify a customer's search for the perfect gift, the company also redesigned its website. The new website allowed customers to navigate through the offerings by type of recipient, by gift-giving occasion, or by product category.

Finally, to more clearly reflect the firm's new upscale positioning, the company name was changed to RedEnvelope. The name derives from an Asian custom of marking special occasions by giving cash or small presents enclosed in a red envelope. It also suggested a distinctive packaging approach: all RedEnvelope gifts are delivered in a red gift box with a hand-tied bow.

Advertising and Promotion

With only a few weeks to go before the peak holiday selling season, RedEnvelope decided to devote a third of its new capital to advertising aimed at building customer awareness of the site. Rather than costly TV ads, the firm concentrated its money on a series of print ads to be run in newspapers and magazines, such as the *New York Times*, with readerships similar to RedEnvelope's target market,. The company also paid to establish partnerships with a number of online hubs such as America Online, web portals like Yahoo! and Google, and a select group of more narrowly focused websites such as iVillage.com. It devoted \$2 million to these partnerships – paid for through either a flat fee or a percentage of sales – for a simple reason: 'To be where people are shopping online means being on the portals,' says RedEnvelope's vice president for business development.

Distribution and Order Fulfilment

RedEnvelope owns its own inventory, marketing, systems management, and customer service operations. But it does not yet have sufficient capital to develop its own physical logistics and order fulfilment operation. Consequently, the company contracted with ComAlliance, a fulfilment firm in Ohio, to provide warehouse space and everything that goes with it, including the workers expected to produce scads of smartly wrapped packages. The ComAlliance facility is located at the end of an Airborne Express runway. Thus, merchandise that leaves the warehouse by 2 a.m. can be in the air by 4:30 and to its destination by noon. This setup allowed RedEnvelope to make a promise that was the core of its early brand-building efforts: Christmas Eve delivery of gifts ordered by midnight on December 23.

Customer Feedback

Once the site was up and running, managers were able to track purchases hourly and quickly reformulate the product mix. For example, a line of wines was not selling as quickly as expected, generating only six purchases an hour. It was replaced with a Zen fountain that sold reliably at a rate of one every five minutes.

The Results

RedEnvelope's management team brought the new operation online 60 days before its second Christmas. In two months the company shipped 20 000 packages and generated more revenue than the firm had managed in the preceding two years. Its Web alliances and ads were particularly effective. Most important, the firm lived up to its promises. It filled 98 per cent of its orders accurately, shipped 99 per cent of its packages on time, and only 2 per cent of recipients wanted to return their gifts.

On the minus side, during the first two months of its existence the company shelled out nearly \$4 in marketing for every \$1 in gross sales. But as awareness of the firm's brand began to grow within its target market, RedEnvelope was able to reduce its heavy media advertising budget and lower the cost of acquiring each new customer to only \$30, far below the \$55 thought to be average for online retailers. And while many other online retailers went bust, RedEnvelope continued to grow, reaching \$50 million in sales and even managing a profit by its fourth year in business.

Learning Objectives

The activities of RedEnvelope's managers as they worked to redefine the company's marketing plan clearly demonstrate that marketing involves decisions crucial to the success of every organisation, whether large or small, profit or nonprofit, manufacturer, retailer, or service firm. The CEO of a start-up such as RedEnvelope must decide what goods or services to sell, to whom, with what features and benefits, at what price, and so on. A chief financial officer for a large multinational corporation must market the merits of the company to the capital markets to obtain the resources needed for continued growth. The executive director of a nonprofit community agency must pursue the resources necessary for the agency to achieve its mission, whether those resources come from fees for the services it delivers or from grants and contributions. And all of those managers must market their ideas for improving their organisations' prospects and performance to their colleagues inside the firm as well as to customers, suppliers, strategic partners, and prospective employees. Thus, most managers engage in tasks involving marketing decisions virtually every day.

This course provides prospective managers and entrepreneurs with the marketing tools, perspectives, and analytical frameworks they'll need to play an effective role in the marketing life and overall strategic development of their organisations, regardless of whether they occupy formal marketing jobs. Module 1 addresses a number of broad but important questions all managers must resolve in their own minds: Are marketing decisions important? Does marketing create value for customers and shareholders? What constitutes effective marketing practice? Who does what in marketing and how much does it cost? And finally, what decisions go into the development of a strategic marketing programme for a particular good or service and how can those decisions be summarised in an action plan?

1.1 Why Are Marketing Decisions Important?

The improved performance of RedEnvelope following the retooling of its strategic marketing plan illustrates the importance of good marketing decisions in today's business organisations. And according to many managers and expert observers around the world, a strong customer focus and well-conceived and executed marketing strategies will be even more crucial for the success of most organisations as the global marketplace becomes more crowded and competitive.²

The importance of marketing in a company's ongoing success can be better appreciated when you consider the activities marketing embraces. Marketing attempts to measure and anticipate the needs and wants of a group of customers and respond with a flow of need-satisfying goods and services. Accomplishing this requires the firm to

- Target those customer groups whose needs are most consistent with the firm's resources and capabilities.
- Develop products and/or services that meet the needs of the target market better than competitors.
- Make its products and services readily available to potential customers.
- Develop customer awareness and appreciation of the value provided by the company's offerings.
- Obtain feedback from the market as a basis for continuing improvement in the firm's offerings.
- Work to build long-term relationships with satisfied and loyal customers.

The most important characteristic of marketing as a business function is its focus on customers and their needs. This is a focus that all managers – not just marketers – need to adopt to ensure their organisations can build and sustain a healthy ‘top line.’

1.1.1 The Importance of the Top Line

In the financial markets it is a company’s bottom line – its profitability – that is most important. In the long run, all firms – even Internet start-ups – must make a profit to survive. But as the managers at RedEnvelope are well aware, there can never be a positive bottom line – nor financing, employees, or anything else – without the ability to build and sustain a healthy top line: sales revenue. As a wise observer once said, nothing happens until somebody sells something. Or to paraphrase management guru Peter Drucker, everything a company does internally is a cost centre. The only *profit* centre is a customer whose cheque doesn’t bounce.

That is why the customer focus inherent in the marketing function is important. When properly implemented, a customer focus enables firms to enjoy success by exploiting changes in the marketplace, by developing products and services that have superiority over what is currently available, and by taking a more focused and integrated cross-functional approach to their overall operations. RedEnvelope, for example, started down the road to bottom line success by developing a unique and appealing line of gift products and backing them up with a user-friendly website and quick and reliable delivery. All the firm’s activities were focused on satisfying its target market because, as Hilary Billings points out, ‘Success ... lies in creating a memorable experience for the customer.’³

1.2 Marketing Creates Value by Facilitating Exchange Relationships

While we have described marketing activities from an individual organisation’s perspective, marketing also plays an important role in the broader context of the global economy. It helps facilitate exchange relationships among people, organisations, and nations.

Marketing is a social process involving the activities necessary to enable individuals and organisations to obtain what they need and want through exchanges with others and to develop ongoing exchange relationships.⁴

Increased division and specialisation of labour are some of the most important changes that occur as societies move from a primitive economy toward higher levels of economic development. But while increased specialisation helps improve a society’s overall standard of living, it leads to a different problem: Specialists are no longer self-sufficient. Artisans who specialise in making pots become very skilled and efficient at pot making, producing a surplus of pots, but they do not make any of the many other goods and services they need to survive and to improve their lifestyle. A society cannot reap the full benefits of specialisation until it develops the means to facilitate the trade and exchange of surpluses among its members. Similarly, a nation cannot partake of the full range of goods and services available around the world or penetrate all potential markets for the economic output of its citizens unless exchanges can occur across national boundaries.

1.2.1 What Factors Are Necessary for a Successful Exchange Relationship?

Many exchanges are necessary for people and organisations to reap the benefits of the increased specialisation and productivity that accompanies economic development. But such exchanges do not happen automatically, nor does every exchange necessarily lead to a mutually satisfying long-term relationship. The conditions for a successful exchange transaction can be met only after the parties themselves – or marketing intermediaries such as a wholesale distributor or a retailer like RedEnvelope – have performed several tasks. These include identifying potential exchange partners, developing offerings, communicating information, delivering products, and collecting payments. This is what marketing is all about. Before we take a closer look at specific marketing activities and how they are planned and implemented by marketing managers, we will discuss some terms and concepts in our definition of marketing and the conditions necessary for exchange. Let's examine the following questions:

1. Who are the *parties* involved in exchange relationships? Which organisations and people market things, and who are their customers?
2. Which *needs and wants* do parties try to satisfy through exchange, and what is the difference between the two?
3. *What* is exchanged?
4. How does exchange create *value*? Why is a buyer better off and more satisfied following an exchange?
5. How do potential exchange partners become a *market* for a particular good or service?

1.2.2 Who Markets and Who Buys? The Parties in an Exchange

Virtually every organisation and individual with a surplus of *anything* engages in marketing activities to identify, communicate, and negotiate with potential exchange partners. Some are more aggressive – and perhaps more effective – in their efforts than others. When considering extensive marketing efforts aimed at stimulating and facilitating exchange, we think first of the activities of goods manufacturers (Intel, BMW, Sony), service producers (Air France, McDonald's, Intercontinental Hotels), and large retailers (Zara, Marks & Spencer, Walmart).

However, museums, hospitals, theatres, universities, and other social institutions – whether for profit or nonprofit – also carry out marketing activities to attract customers, students, and donors. In the past, their marketing efforts were not very extensive or well organised. Now, increasing competition, changing customer attitudes and demographics, and rising costs have caused many nonprofit organisations to look to more extensive marketing efforts to solve their problems.⁵ For example, some churches are using marketing techniques to address social problems, as well as to increase church attendance.

1.2.2.1 Customers

Both individuals and organisations seek goods and services obtained through exchange transactions. **Ultimate customers** buy goods and services for their own personal use or the use of others in their immediate household. These are called **consumer goods and services**. **Organisational customers** buy goods and services (1) for resale (as when RedEnvelope buys several gross of Zen fountains for resale to individual consumers); (2) as inputs to the production of other goods or services (as when BMW buys sheet steel to be stamped into car body parts); or (3) for use in the day-to-day operations of the organisation (as when a university buys paper and printer cartridges). These are called **industrial goods and services**. Throughout this course we examine differences in the buying behaviour of these two types of customers and the marketing strategies and programmes relevant for each.

1.2.3 Customer Needs and Wants

Needs are the basic forces that drive customers to take action and engage in exchanges. An unsatisfied **need** is a gap between a person's actual and desired states on some physical or psychological dimension. We all have *basic physical needs* critical to our survival, such as food, drink, warmth, shelter, and sleep. We also have *social and emotional needs* critical to our psychological well-being, such as *security, belonging, love, esteem, and self-fulfilment*. Those needs that motivate the consumption behaviour of individuals are few and basic. They are not created by marketers or other social forces; they flow from our basic biological and psychological makeup as human beings.

Organisations also must satisfy needs to assure their survival and well-being. Shaped by the organisation's strategic objectives, these needs relate to the resource inputs, capital equipment, supplies, and services necessary to meet those objectives.

Wants reflect a person's desires or preferences for specific ways of satisfying a basic need. Thus, a person wants particular products, brands, or services to satisfy a need. A person is thirsty and wants a Coke. A company needs office space and its top executives want an office at a prestigious address in midtown Manhattan.

Basic needs are relatively few, but people's many wants are shaped by social influences, their past history, and consumption experiences. Different people may have very different wants to satisfy the same need. Everyone *needs* to keep warm on cold winter nights, for instance. But some people *want* electric blankets, while others prefer old-fashioned down comforters.

This distinction between needs and wants helps put into perspective the charge that 'marketers create needs,' or that 'marketers make people want things they don't need.' Neither marketers nor any other single social force can create needs deriving from the biological and emotional imperatives of human nature. On the other hand, marketers – and many other social forces – influence people's wants. A major part of a marketer's job is to develop a new product or service and then to stimulate customer wants for it by convincing people it can help them better satisfy one or more of their needs.

1.2.3.1 Do Customers Always Know What They Want?

Some managers – particularly in high-tech firms – question whether a strong focus on customer needs and wants is always a good thing. They argue that customers cannot always articulate their needs and wants, in part because they do not know what kinds of products or services are technically possible. As Akio Morita, the late visionary CEO of Sony, once said:

Our plan is to lead the public with new products rather than ask them what kind of products they want. The public does not know what is possible, but we do. So instead of doing a lot of marketing research, we refine our thinking on a product and its use and try to create a market for it by educating and communicating with the public.⁷

Others have pointed out that some very successful new products, such as the Chrysler minivan and Compaq's pioneering PC network server, were developed with little or no market research. On the other hand, some famous duds, like Ford's Edsel, New Coke, and McDonald's McLean low-fat hamburger, were developed with a great deal of customer input.⁸

The laws of probability dictate that some new products will succeed and more will fail regardless of how much is spent on marketing research. But the critics of a strong customer focus argue that paying too much attention to customer needs and wants can stifle innovation and lead firms to produce nothing but marginal improvements or line extensions of products and services that already exist. How do marketers respond to this charge?

While many consumers may lack the technical sophistication necessary to articulate their needs or wants for cutting-edge technical innovations, the same is not true for industrial purchasers. About half of all manufactured goods in most countries are sold to other organisations rather than individual consumers. Many high-tech industrial products are initiated at the urging of one or more major customers, developed with their cooperation (perhaps in the form of an alliance or partnership), and refined at customer beta sites.

As for consumer markets, one way to resolve the conflict between the views of technologists and marketers is to consider the two components of R&D. First there is basic research and then there is development – the conversion of technical concepts into actual saleable products or services. Most consumers have little knowledge of scientific advancements and emerging technologies. Therefore, they usually don't – and probably shouldn't – play a role in influencing how firms allocate their basic research dollars.

However, a customer focus is critical to development. Someone within the organisation must either have the insight and market experience (as was the case with Hilary Billings at RedEnvelope) or the substantial customer input necessary to decide what product to develop from a new technology, what benefits it will offer to customers, and whether customers will value those benefits sufficiently to make the product a commercial success. Iomega's experiences in developing the Zip drive into a commercially successful product – as described in Exhibit 1.1 – illustrate this point.

Exhibit I.1 Iomega's zip drive – Helping customers store their 'stuff'

In the late 1980s Iomega Corporation pioneered a nifty technological innovation. The Bernoulli Box was a portable, add-on storage unit for personal computers (PCs). Resembling a grey shoebox with a hole in the front, it could hold 150 megabytes of data on one disk – the equivalent of 107 floppy disks.

But by late 1993 the product was in trouble. Its \$600 unit price and \$100 disk price had proven too high to attract many individual PC users, the 52-page user's manual was hard for customers to decipher and a competitor had already introduced a cheaper, faster alternative. Consequently, the firm reported an \$18 million loss for the year and its stock price was at an all-time low.

The struggling company brought in a new CEO whose first priority was to convert the Bernoulli Box technology into a product line that would succeed in the marketplace. He appointed a cross-functional development team with representatives from engineering, marketing, operations and other areas. The team, together with designers from Fitch PLC, an industrial design firm, started by conducting exhaustive interviews with over 1000 people who used computers in large companies, in small organisations, or at home. Based on the information gathered, they created several generations of prototype products that were subsequently further refined in response to reactions from additional samples of potential customers.

Based on the extensive customer feedback received, the development team greatly streamlined the old Bernoulli Box, reducing its weight to about a pound so it could fit in a briefcase. To appeal to different segments of individual and business users, they designed three different models with different storage capacities and different prices. All three were given bright colours to make them stand out from their environment and to signal that they were different from the 'grey' competition. The most basic model – the Zip drive – held 100 megabytes and was initially priced at \$200 per unit and \$20 per disk (prices that have fallen substantially since) to appeal to individual PC owners for their personal use. Finally, a promotional campaign was crafted around the theme that Zip could help people organise their 'stuff' to make it more accessible and portable.

Within three years of its introduction, more than three million Zip drives were sold. Consequently, Iomega's share price soared from \$2 to \$150 (before stock splits) and the firm made it into the top 50 of Fortune's list of fastest-growing companies.

Unfortunately, the Zip drive also provides an excellent illustration of how advancing technology can shorten the life cycle of even the hottest product. Within five years of its introduction, a variety of read/write CD — and eventually DVD — players were being offered either as external add-ons or built-in components by the PC makers. Given that CDs offered much more functionality and storage capacity at a lower price, the market for Zip drives quickly dried up.

Source: 'The Right Stuff,' Journal of Business and Design 2 (Fall 1996), pp. 6–11; 'America's Fastest Growing Companies,' Fortune, October 14, 1996, pp. 90–104; and Paul Eng, 'What to Do When You Need More Space,' Business Week, November 4, 1996, p. 126.

Often, as was the case with the Zip drive, a new technology must be developed into a concrete product concept before consumers can react to it and its commercial potential can be assessed. In other cases, consumers can express their needs or wants for specific benefits even though they do not know what is technically feasible. They can tell you what problems they are having with current products and services and what additional benefits they would like from new ones. For instance, before Apple introduced the iPod, few consumers would have asked for such a product because they were unfamiliar with the possibilities of digitisation and miniaturisation in the electronics industry. But if someone had asked whether they would buy a product smaller than a Sony Walkman that could store and play

thousands of songs they could download from their computer without messing with cassettes, tapes, or CDs, many probably would have said, ‘Sure!’

A strong customer focus is not inconsistent with the development of technically innovative products, nor does it condemn a firm to concentrate on satisfying only current, articulated customer wants. More important, while firms can sometimes succeed in the short run even though they ignore customer desires, a strong customer focus usually pays big dividends in terms of market share and profit over the long haul,⁹ as we’ll see in the next module. As Iomega’s CEO points out, ‘I don’t know how else you can sell in a consumer marketplace without understanding product design and usage. You have to know what the end user wants.’¹⁰

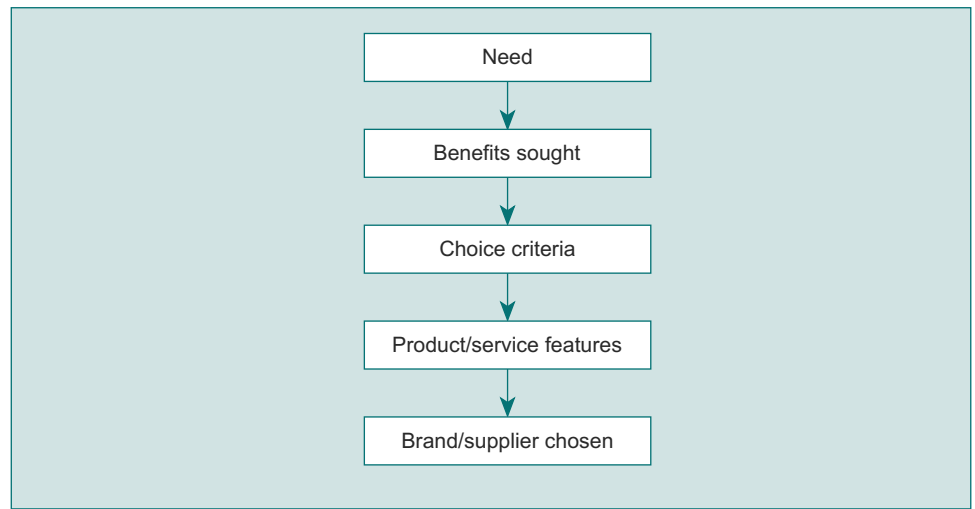
1.2.4 What Gets Exchanged? Goods and Services

Goods and services help satisfy a customer’s need when they are acquired, used, or consumed. **Products** are defined broadly in this course to include both goods and services that help satisfy a customer’s need when they are acquired, used, or consumed. **Goods** are tangible physical objects (such as cars, watches, and computers) that provide a benefit. For example, a car provides transportation; a watch tells the time. **Services** are less tangible and, in addition to being provided by physical objects, can be provided by *people* (doctors, lawyers, architects), *institutions* (the Roman Catholic Church, the United Way), *places* (Walt Disney World, Paris), and *activities* (a contest or a stop-smoking programme).

1.2.5 How Exchanges Create Value

1.2.5.1 Customers Buy Benefits, Not Products

As argued earlier, when people buy products to satisfy their needs, they are really buying the **benefits** they believe the products provide, rather than the products per se. For instance, you buy headache relief, not aspirin. The specific benefits sought vary among customers depending on the needs to be satisfied and the situations where products are used. Because different customers seek different benefits, they use different choice criteria and attach different importance to product features when choosing models and brands within a product category; this is diagrammed in Exhibit 1.2. For example, a car buyer with strong needs for social acceptance and esteem might seek a socially prestigious automobile. Such a buyer would be likely to attach great importance to criteria relating to social image and engineering sophistication such as a high-powered motor, European-road-car styling, all-leather interior, and a state-of-the-art sound system.

Exhibit I.2 Customers buy benefits, not products

Keep in mind, too, that services offered by the seller can also create benefits for customers by helping them reduce their costs, obtain desired products more quickly, or use those products more effectively. Such services are particularly important for satisfying organisational buyers. For example, a few years ago the Massachusetts Institute of Technology discovered that it was doing business with about 20 000 vendors of office and laboratory supplies each year. To improve the efficiency of its purchasing system, MIT developed a computerised catalogue that staff members could access via the school's intranet. It then formed alliances with two main suppliers – Office Depot Inc. and VWR Corp. – who won the bulk of MIT's business by promising to deliver superior service. Both firms deliver purchases within a day or two right to the purchaser's desk rather than to a building's stockroom.¹¹

I.2.5.2 Product Benefits, Service, and Price Determine Value

A customer's estimate of a product's or service's benefits and capacity to satisfy specific needs and wants determines the value he or she will attach to it. Generally, after comparing alternative products, brands, or suppliers, customers choose those they think provide the most need-satisfying benefits per dollar. Thus, **value** is a function of intrinsic product features, service, and price, and it means different things to different people.¹²

Customers' estimates of products' benefits and value are not always accurate. For example, after buying an air-conditioning installation for its premises, a company may find that the product's cost of operation is higher than expected, its response time to changes in the outside temperature is slow, and the blower is not strong enough to properly heat or cool certain remote areas in the building.

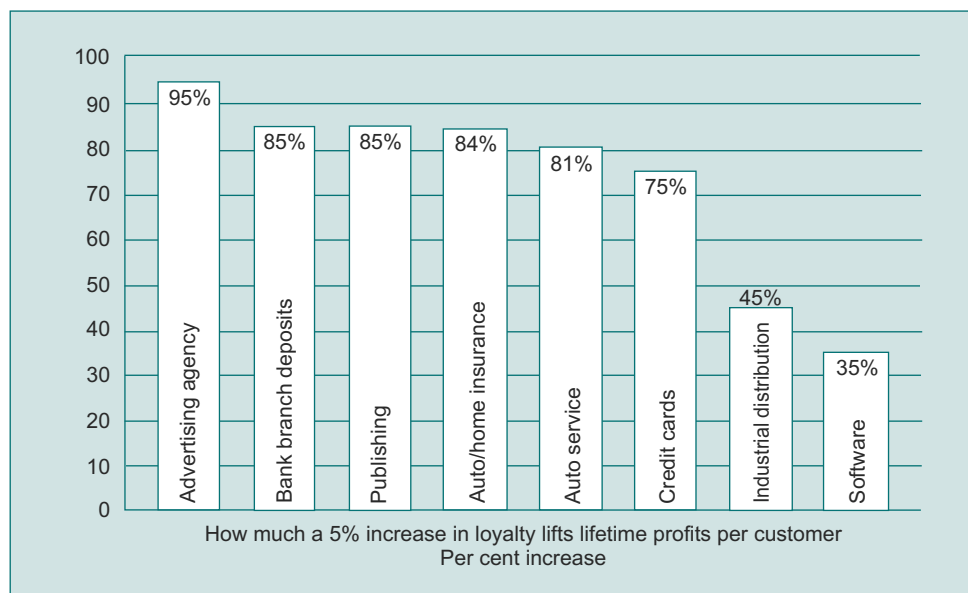
A customer's ultimate *satisfaction* with a purchase, then, depends on whether the product actually lives up to expectations and delivers the anticipated benefits. This is why customer services – particularly those occurring *after* a sale, such as delivery, installation, operating instruction, and repair – are often critical for maintaining satisfied customers.

Also it is essential that companies handle customer complaints effectively. The average business never hears from 96 per cent of its dissatisfied customers. This is unfortunate, for 50 per cent of those who complain say they would do business with the company again if their complaints were handled satisfactorily – 95 per cent if the complaints were resolved quickly.¹³

I.2.5.3 The Value of Long-Term Customer Relationships

Firms traditionally focused on the individual transaction with a customer as the fruition of their marketing efforts. But as global markets have become increasingly competitive and volatile, many firms have turned their attention to building a continuing long-term *relationship* between the organisation and the customer as the ultimate objective of a successful marketing strategy. They are taking action to increase **lifetime customer value** – the present value of a stream of revenue that can be produced by a customer over time. For an automobile manufacturer, for instance, the lifetime value of a first-time car buyer who can be kept satisfied and loyal to the manufacturer – buying all future new cars from the same company – is well over a million dollars.

Exhibit I.3 Big payoffs from keeping loyal customers



Source: Reprinted with permission from 'Keeping the Buyers You Already Have,' by Patricia Sellers, *Fortune*, Special Issue, Autumn–Winter 1993, p. 57 ©1993 Time, Inc. All rights reserved.

Throughout this course we will discuss marketing decisions and activities geared to increasing the satisfaction and loyalty – and therefore the lifetime value – of customers. While such activities can add to a company's marketing costs, they can also produce big dividends, not only in terms of long-term revenues and market share, but also in terms of profitability. The reason is simple: It costs more to attract a new customer than to keep an existing one.¹⁴ To persuade a customer to leave a competitor and buy your product or service instead usually takes either a financial inducement (a lower price or special promotional deal) or an

extensive and convincing communication programme (advertising or sales force effort), all of which are costly. Consequently, the increased loyalty that comes through developing long-term customer relationships translates into higher profits. Exhibit 1.3 shows how much a 5 per cent improvement in customer loyalty is estimated to increase the lifetime profits per customer in a variety of goods and service industries.

1.2.5.4 Brand Equity

The assets – including customers' perceptions of a product's benefits and value, their positive past experiences, and their loyalty over time – linked to a brand's name and symbol constitute the brand's *equity*.¹⁵ Brand equity reflects the value of the brand name and logo as promotional tools for attracting future buyers and building market share and profitability. That is why Samsung's recent marketing efforts have concentrated on building the equity of the Samsung brand in global markets by incorporating innovative technologies and stylish design in the firm's offerings and advertising them as appropriate products for modern lifestyles. Ultimately, in other words, a brand's value to the company depends on how much value customers think the brand provides for them; value creation cuts both ways.

1.2.6 Defining a Market

A **market** consists of (a) *individuals and organisations* who (b) are *interested and willing* to buy a particular product to obtain benefits that will satisfy a specific need or want, and who (c) have the *resources (time, money)* to engage in such a transaction. Some markets are sufficiently homogeneous that a company can practise undifferentiated marketing in them. That is, the company attempts to market a line of products using a single marketing programme. But because people have different needs, wants, and resources, the entire population of a society is seldom a viable market for a single product or service. Also, people or organisations often seek different benefits to satisfy needs and wants from the same type of product (e.g., one car buyer may seek social status and prestige while someone else wants economical basic transportation).

The total market for a given product category thus is often fragmented into several distinct **market segments**. Each *segment* contains people who are relatively homogeneous in their needs, their wants, and the product benefits they seek. Also, each segment seeks a different set of benefits from the same product category.

Strategic marketing management involves a seller trying to determine the following points in an effort to define the target market:

1. Which customer needs and wants are currently not being satisfied by competitive product offerings.
2. How desired benefits and choice criteria vary among potential customers and how to identify the resulting segments by demographic variables such as age, sex, lifestyle, or some other characteristics.
3. Which segments to target, and which product offerings and marketing programmes appeal most to customers in those segments.
4. How to position the product to differentiate it from competitors' offerings and give the firm a sustainable competitive advantage.

Much of RedEnvelope's early success can be attributed to the fact that the firm focused on a clearly defined segment of up-scale gift buyers and then developed product offerings,

customer services, a website design, and promotional materials that appealed to that target segment and set the firm apart from its competitors.

1.3 What Does Effective Marketing Practice Look Like?

Exchange transactions – and particularly long-term relationships – do not happen automatically. They are the result of many decisions that must be planned and carried out by somebody. Sometimes a single organisation has the necessary resources to plan and execute an entire marketing strategy by itself. Usually, though, a firm's marketing programme involves cooperative efforts from a network of more specialised institutions: suppliers, wholesalers, retailers, advertising agencies, and the like.

RedEnvelope's marketing programme, for instance, relies heavily on products supplied by a number of manufacturers or wholesale merchants, advertising developed and placed by an ad agency, warehouse and fulfilment facilities provided by ComAlliance, delivery by Airborne Express, and access to potential customers via partnerships with various Web portals. In some cases, major customers may be involved in shaping and executing parts of a firm's marketing programme, such as new product development and testing.

Regardless of who is involved, we refer to the entire sequence of analyses, decisions, and activities involved in planning, carrying out, and evaluating a strategic marketing programme as the marketing management process. We take a more detailed look at this process – and at the roles of different functional managers and marketing institutions in planning and executing the activities involved – next.

1.3.1 Marketing Management – A Definition

Our discussion suggests that marketing occurs whenever one party has something it would like to exchange with another. Marketing management is the process that helps make such exchanges happen. More specifically, **marketing management** is the process of analysing, planning, implementing, coordinating, and controlling programmes involving the conception, pricing, promotion, and distribution of goods, services, and ideas designed to create and maintain beneficial exchanges with target markets for the purpose of achieving organisational objectives.

Exhibit 1.4 diagrams the major decisions and activities involved in the marketing management process, and it also serves as the organisational framework for the rest of this book. For that reason, it is important to note the basic focus of this framework and the sequence of events within it.

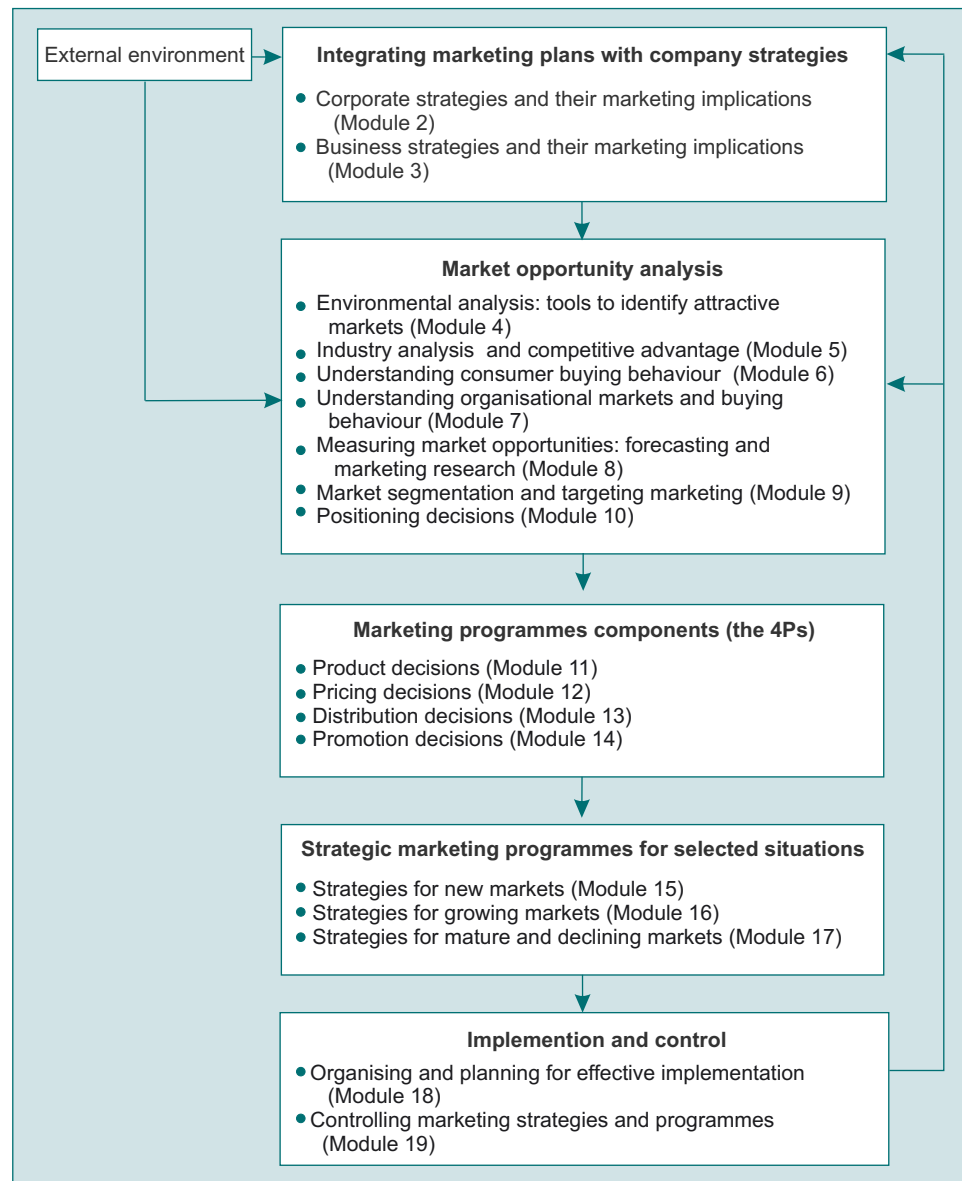
1.3.1.1 A Decision-Making Focus

The framework has a distinct decision-making focus. Planning and executing an effective marketing programme involves many interrelated decisions about what to do, when to do it, and how. Those decisions are the major focus of the rest of this book. Every module details decisions that must be made and actions taken with respect to a specific piece of a strategic marketing programme and provides the analytical tools and frameworks you'll need to make those decisions intelligently.

1.3.1.2 Analysing the 4 Cs

A substantial amount of analysis of customers, competitors, and the company itself occurs *before* decisions are made concerning specific components of the marketing programme. This reflects our view that successful marketing management decisions usually rest on an objective, detailed, and evidence-based understanding of the market and the environmental context. Of course, most marketing strategies never get implemented in quite the same way as they were drawn on paper. Adjustments are made and new activities undertaken in response to rapid changes in customer demands, competitive actions, or shifting economic conditions. But a thorough and ongoing analysis of the market and the broader environment enables managers to make such adjustments in a well-reasoned and consistent way rather than by the seat of the pants.

The analysis necessary to provide the foundation for a good strategic marketing plan should focus on four elements of the overall environment that may influence a given strategy's appropriateness and ultimate success: (1) the *company's* internal resources, capabilities, and strategies; (2) the environmental *context* – such as broad social, economic, and technology trends – in which the firm will compete; (3) the needs, wants, and characteristics of current and potential *customers*; and (4) the relative strengths and weaknesses of *competitors* and trends in the competitive environment. Marketers refer to these elements as **the 4 Cs**, and they are described in more detail below.

Exhibit I.4 The marketing management process

I.3.2 Integrating Marketing Plans with the Company's Strategies and Resources

Many firms – particularly larger organisations with multiple divisions or business units – develop a hierarchy of interdependent strategies. Each strategy is formulated at varying levels within the firm and deals with a different set of issues. For example, IBM has reduced its focus and the proportion of resources it devotes to its traditional computer hardware businesses. Instead, it is seeking future growth and profits by investing heavily in developing engineering, software, and e-commerce consulting services aimed at helping business clients

integrate their old corporate databases into new online systems. This change in emphasis reflects IBM's new **corporate strategy**. This strategy reflects the company's mission and provides direction for decisions about what businesses it should pursue, how it should allocate its available resources, and its growth policies.

Iomega's heavy investment in R&D and consumer research to develop a new generation of technically superior, attractively designed, but reasonably priced data storage products (as described in Exhibit 1.1) represents part of a **business-level (or competitive) strategy** that addresses how the business intends to compete in its industry. Iomega sought to regain a competitive advantage by offering cutting-edge technology, innovative design, and superior customer value.

Finally, interrelated decisions about market segments, product line, advertising appeals and media, prices, and partnerships with suppliers, Web portals, and fulfilment and transportation companies all reflect RedEnvelope's **marketing strategy**. This is the company's plan for pursuing its objectives within the upscale segment of the online gift market. Because RedEnvelope is a small startup with only a single product line, its business-level competitive strategy and its marketing strategy substantially overlap. This is often the case with smaller organisations.

A major part of the marketing manager's job is to monitor and analyse customers' needs and wants and the emerging opportunities and threats posed by competitors and trends in the external environment. Therefore, because all levels of strategy must consider such factors, marketers often play a major role in providing inputs to – and influencing the development of – corporate and business strategies. Conversely, general managers and senior managers in other functions need a solid understanding of marketing in order to craft effective organisational strategies.

Marketing managers also bear the primary responsibility for formulating and implementing strategic marketing plans for individual product-market entries or product lines. But as the above discussion suggests, such strategic marketing programmes are not created in a vacuum. Instead, the marketing objectives and strategy for a particular product-market entry must be achievable with the company's available resources and capabilities and consistent with the direction and allocation of resources inherent in the firm's corporate and business-level strategies. In other words, there should be a good fit – or internal consistency – among the elements of all three levels of strategy. Module 2 and Module 3 describe in more detail the components of corporate and business-level strategies, their implications for strategic marketing programmes, and the role marketers and other functional managers play in shaping the strategic direction of their organisations and business units.

1.3.3 Market Opportunity Analysis

A major factor in the success or failure of strategies at all three levels is whether the strategy elements are consistent with the realities of the firm's external environment. Thus, the next step in developing a strategic marketing plan is to monitor and analyse the opportunities and threats posed by factors outside the organisation. This is an ongoing responsibility for marketing managers.

1.3.3.1 Environmental Analysis

To understand potential opportunities and threats over the long term, marketers must first monitor and analyse broad trends in the economic and social environment. These include

demographic, economic, technological, political/legal, and social/cultural developments. Of particular concern within an organisation's economic environment are the actions and capabilities of its current and potential competitors. Module 4 identifies a number of macroenvironmental factors marketing managers should pay attention to. It discusses methods for monitoring, analysing, and perhaps even influencing the impact of those factors on the future performance of their product-market entries.

I.3.3.2 Industry Analysis and Competitive Advantage

The competitive and market environments of an industry are not static, but can change dramatically over time. For example, Iomega's initial product, the Bernoulli Box, lost much of its early momentum when SyQuest entered the market with a faster, cheaper alternative. Module 5 explores the competitive dynamics of an industry, emphasising how competition and customers' buying patterns are likely to change as an industry or product-market moves through various life-cycle stages.

I.3.3.3 Customer Analysis

The primary purpose of marketing activities is to facilitate and encourage exchange transactions with potential customers. One of a marketing manager's major responsibilities is to analyse the motivations and behaviour of present and potential customers. What are their needs and wants? How do those needs and wants affect the product benefits they seek and the criteria they use in choosing products and brands? Where do they shop? How are they likely to react to specific price, promotion, and service policies? To answer such questions, a marketing manager must have some notion of the mental processes customers go through when making purchase decisions and of the psychological and social factors that influence those processes. Module 6 discusses the processes and influences that shape consumers' buying behaviour. Because some aspects of the purchase process differ for organisations, Module 7 examines the buying behaviour of institutional customers.

I.3.3.4 Marketing Research and Market Information

Marketing managers must obtain objective information about potential customers, the satisfaction and loyalty of current customers, the firm's wholesale and retail partners, and the strengths and weaknesses of competitors. Consequently, even relatively small organisations such as Iomega and RedEnvelope often expend substantial financial and personnel resources studying the needs and preferences of potential customers, developing new products, and tracking the sales patterns and satisfaction of existing customers and channel members.

If managers are to make informed decisions, however, research information must be converted into estimates of the sales volume and profit the firm might reasonably expect a particular marketing programme to generate within a given market segment. Module 8 discusses techniques and methods for collecting and analysing marketing research information and for measuring the market potential and likely sales volumes of particular market segments. The specific research methods that marketing managers use to make decisions about elements of a marketing programme – such as what price to charge or which advertising media to use – will be examined in more detail in modules dealing with each of these programme decisions.

I.3.3.5 Market Segmentation, Targeting, and Positioning Decisions

Not all customers with similar needs seek the same products or services to satisfy those needs. Their purchase decisions may be influenced by individual preferences, personal characteristics, social circumstances, and so forth. On the other hand, customers who do purchase the same product may be motivated by different needs, seek different benefits from the product, rely on different sources for product information, and obtain the product from different distribution channels. Thus, one of the manager's most crucial tasks is to divide customers into **market segments** – distinct subsets of people with similar needs, circumstances, and characteristics that lead them to respond in a similar way to a particular product or service offering or to a particular strategic marketing programme. Module 9 examines analytical techniques that can help managers identify and define market segments in both consumer and organisational markets.

After defining market segments and exploring customer needs and the firm's competitive strengths and weaknesses within segments, the manager must decide which segments represent attractive and viable opportunities for the company; that is, on which segments to focus a strategic marketing programme. Iomega, for instance, targeted two market segments with its new line of data storage drives. The Zip drive was aimed at individual PC owners for their personal use, while larger capacity and more expensive drives were aimed at organisational buyers. Module 9 discusses some of the considerations in *selecting a target segment*.

Finally, the manager must decide how to **position** the product or service offering within a target segment, that is, to design the product and its marketing programme so as to emphasise attributes and benefits that appeal to customers in the target segment and at once distinguish the company's offering from those of competitors. Thus, RedEnvelope has positioned its offering as unique, high-quality, quickly delivered gifts for upscale buyers. Issues and analytical techniques involved in marketing positioning decisions are discussed in Module 10.

I.3.4 Formulating Strategic Marketing Programmes

Designing an effective strategic marketing programme for a product-market entry involves three interrelated sets of decisions:

1. The manager must set specific objectives to be accomplished within the target market, such as sales volume, market share, and profitability goals. Those objectives must be consistent with the firm's corporate and business-unit strategic objectives, yet specific enough to enable management to monitor and evaluate the product-market entry's performance over time.
2. The manager must decide on an overall marketing strategy to appeal to customers – and to gain competitive advantage – in the target market. The strategy must be consistent with the firm's capabilities, its corporate and business-unit strategies, and the product-market objectives. The manager must then make decisions about each element of the tactical marketing programme used to carry out the strategy. These decisions must be internally consistent and integrated across all elements of the marketing programme.

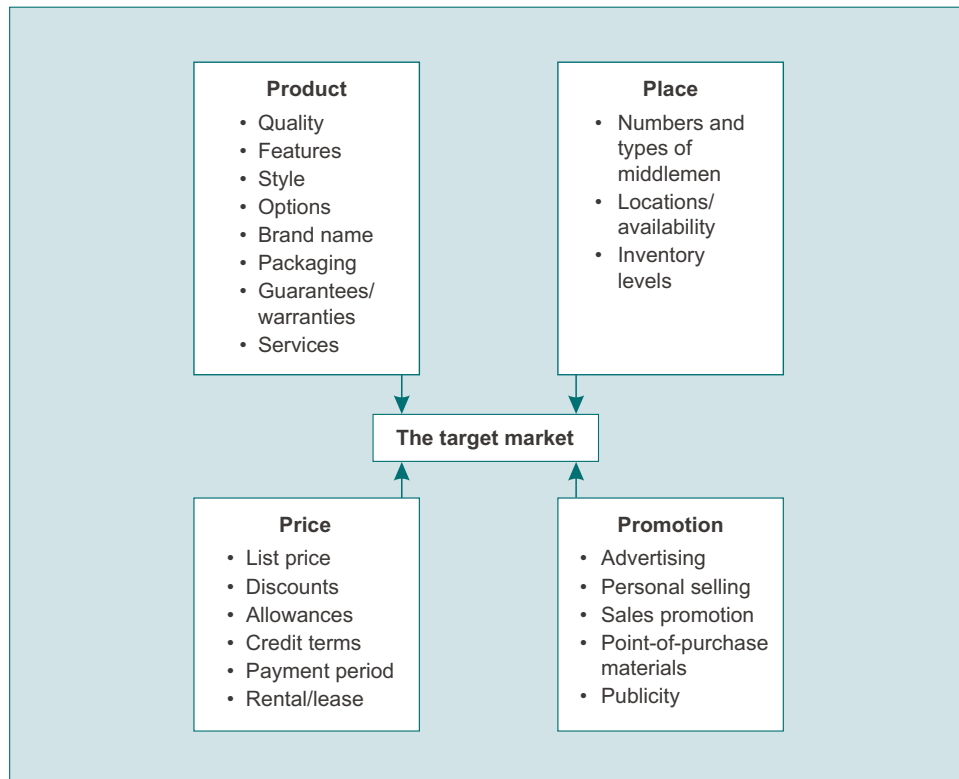
I.3.4.2 Specifying Marketing Objectives and Strategies

The first step in developing a strategic marketing programme is to specify the objectives and the overall marketing strategy of each target market. As we've mentioned, these are partly

dictated by corporate and business-level objectives, strategies, and resources. Module 3 describes a number of generic business-level competitive strategies and examines the way such strategies influence decisions about marketing objectives and programmes, as well as the role other functional managers play in implementing those marketing programmes.

I.3.4.3 Marketing Programme Components

Exhibit I.5 Decisions within the four elements of the marketing mix



Dozens of specific tactical decisions must be made in designing a strategic marketing programme for a product-market entry. These decisions fall into four categories of major marketing variables that a manager has some ability to control over the short term. Often called **the 4 Ps**, the controllable elements of a marketing programme are the **product offering** (including the breadth of the product line, quality levels, and customer services); **price**; **promotion** (advertising, sales promotion, and salesforce decisions); and **place** (or distribution channel decisions). Because decisions about each element should be consistent and integrated with decisions concerning the other three, the four components are often referred to as the *marketing mix*.

The **marketing mix** is the combination of controllable marketing variables that a manager uses to carry out a marketing strategy in pursuit of the firm's objectives in a given target market.

Exhibit 1.5 outlines some of the decisions that must be made within each of the four elements of the marketing mix. Modules 11 through 14 discuss in more detail the various methods and criteria for making decisions about each of these programme components.

1.3.5 Formulating Strategic Marketing Programmes for Specific Situations

The strategic marketing programme for a product should reflect market demand and the competitive situation within the target market. But demand and competitive conditions change over time as a product moves through its life cycle. Therefore, different marketing strategies are typically more appropriate and successful for different market conditions and at different life cycle stages. Module 15 examines marketing strategies for introducing new goods or services to the market. Module 16 discusses strategies appropriate for building or maintaining a product's share of a growing market in the face of increasing competition. Module 17 then considers the marketing strategies a firm might adopt in mature and declining product-markets.

1.3.6 Implementation and Control of the Marketing Programme

A final critical determinant of a strategy's success is the firm's ability to implement it effectively. And this depends on whether the strategy is consistent with the resources, the organisational structure, the coordination and control systems, and the skills and experience of company personnel.¹⁶ Managers must design a strategy to fit the company's existing resources, competencies, and procedures – or try to construct new structures and systems to fit the chosen strategy. For example, Iomega's attempt to develop a new generation of data storage products would not have been so successful without its substantial investments in R&D and marketing research and a team structure that encouraged communication and cooperation across functional areas throughout the development process. Module 18 discusses the structural variables, planning and coordination processes, and personnel and corporate culture characteristics related to the successful implementation of various marketing strategies.

The final tasks in the marketing management process are determining whether the strategic marketing programme is meeting objectives and adjusting the programme when performance is disappointing. This evaluation and control process provides feedback to managers and serves as a basis for a market opportunity analysis in the next planning period. Module 19 examines ways to evaluate marketing performance and develop contingency plans for when things go wrong.

1.3.7 The Marketing Plan – A Blueprint for Action

The results of the various analyses and marketing programme decisions discussed above should be summarised periodically in a detailed formal marketing plan.¹⁷

A **marketing plan** is a written document detailing the current situation with respect to customers, competitors, and the external environment and providing guidelines for objectives, marketing actions, and resource allocations over the planning period for either an existing or a proposed product or service.

Exhibit I.6 Contents of a marketing plan

Section	Content
I Executive summary	Presents a short overview of the issues, objectives, strategy and actions incorporated in the plan and their expected outcomes for quick management review.
II Current situation and trends	Summarises relevant background information on the market, competition and the macroenvironment and trends therein, including size and growth rates for the overall market and key segments.
III Performance review (for an existing product or service only)	Examines the past performance of the product and the elements of its marketing programme (e.g. distribution, promotions, etc.).
IV Key issues	Identifies the main opportunities and threats to the product that the plan must deal with in the coming year and the relative strengths and weaknesses of the product and business unit that must be taken into account in facing those issues.
V Objectives	Specifies the goals to be accomplished in terms of sales volume, market share and profit.
VI Marketing strategy	Summarises the overall strategic approach that will be used to meet the plan's objectives.
VII Action plans	This is the most critical section of the annual plan for helping to ensure effective implementation and coordination of activities across functional departments. It specifies: • The Target market to be pursued. • What specific actions are to be taken with respect to each of the 4 Ps. • Who is responsible for each action. • When the action will be engaged in. • How much will be budgeted for each action.
VIII Projected profit-and-loss statement	Presents the expected financial payoff from the plan.
IX Controls	Discusses how the plan's progress will be monitored; may present contingency plans to be used if performance falls below expectations or the situation changes.
X Contingency plans	Describes actions to be taken if specific threats or opportunities materialise during the planning period.

While some firms – particularly smaller ones – do not bother to write their marketing plans, most organisations believe that ‘unless all the key elements of a plan are written down ... there will always be loopholes for ambiguity or misunderstanding of strategies and objectives, or of assigned responsibilities for taking action.’¹⁸ This suggests that even small organisations with limited resources can benefit from preparing a written plan, however brief. Written plans also provide a concrete history of a product's strategies and performance over time, which aids institutional memory and helps educate new managers assigned to the product. Written plans are necessary in most larger organisations because a marketing

manager's proposals must usually be reviewed and approved at higher levels of management and because the approved plan provides the benchmark against which the manager's performance will be judged. Finally, the discipline involved in producing a formal plan helps ensure that the proposed objectives, strategy, and marketing actions are based on rigorous analysis of the 4 Cs and sound reasoning.

Because a written marketing plan is such an important tool for communicating and coordinating expectations and responsibilities throughout the firm, we will say more about it in Module 18 when we discuss the implementation of marketing programmes in detail. But because the written plan attempts to summarise and communicate an overview of the marketing management process we have been examining, it is worthwhile to briefly examine the contents of such plans here.

Marketing plans vary in timing, content, and organisation across companies. In general, marketing plans are developed annually; though planning periods for some big-ticket industrial products, such as commercial aircraft, may be longer, and in some highly volatile industries, such as telecommunications or e-commerce, they can be shorter. Plans typically follow a format similar to that outlined in Exhibit 1.6.

There are three major parts to the plan. First, the marketing manager details his or her assessment of the current situation. This is the homework portion of the plan where the manager summarises the results of his or her analysis of current and potential customers, the company's relative strengths and weaknesses, the competitive situation, the major trends in the broader environment that may affect the product and, for existing products, past performance outcomes. This section typically also includes forecasts, estimates of sales potential, and other assumptions underlying the plan, which are especially important for proposed new products or services. Based on these analyses, the manager may also call attention to several key issues – major opportunities or threats that should be dealt with during the planning period.

The second part of the plan details the strategy for the coming period. This part usually starts by detailing the objectives (e.g., sales volume, market share, profits, customer satisfaction levels, etc.) to be achieved by the product or service during the planning period. It then outlines the overall marketing strategy, the actions associated with each of the 4 Ps necessary to implement the strategy, and the timing and locus of responsibility for each action.

Finally, the plan details the financial and resource implications of the strategy and the controls to be employed to monitor the plan's implementation and progress over the period. Some plans also specify some contingencies: how the plan will be modified if certain changes occur in the market, competitive, or external environments.

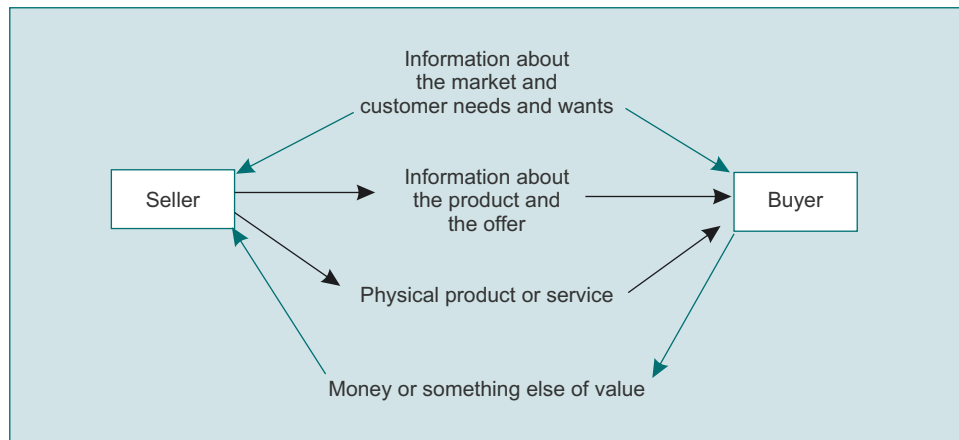
1.4 Who Does What?

1.4.1 Marketing Institutions

A strategic marketing programme involves a large number of activities aimed at encouraging and facilitating exchanges and building relationships with customers. And *all* of those activities must be performed by somebody for exchanges to happen. One of the few eternal truths in marketing is that 'you can eliminate the middlemen, but you can't eliminate their functions.' Somebody has to gather information or feedback from customers concerning their needs and wants; use that information to design product or service offerings that will provide valued

benefits; communicate the existence and benefits of the offering to the market; perform the storage, order fulfilment, and transportation activities necessary to make the product conveniently available to customers; finance purchases; collect payment; and resolve customer problems or complaints after the sale. The major flows of the physical product, payment, and information that occur during an exchange are summarised in Exhibit 1.7.

Exhibit 1.7 What must change hands to complete an exchange between a buyer and a seller?



In a few cases, nearly all these activities are performed by a single organisation and its employees. Such internal control of the full range of marketing functions and activities is referred to as **vertical integration**. Dell Computer's reliance on the Internet to attract customers and process orders together with a flexible manufacturing system that produces computers to order and minimises finished inventories, and GE Plastics' reliance on its own salesforce, website, and distribution facilities to service customers all are examples of highly integrated marketing organisations.

The majority of goods and services in most developed economies, however, are marketed through alliances or networks involving multiple institutions or middlemen. These networks are commonly referred to as **marketing channels** or **channels of distribution**. Each institution within the channel specialises in performing only a part of the activities or functions necessary to conduct exchanges with the end user. We will examine these institutions and the nature of their interactions with one another in more detail in Module 13. Marketing institutions fall into one of the following categories:

Merchant wholesalers take title to the goods they sell and sell primarily to other resellers (retailers) and industrial and commercial customers, rather than to individual consumers.

Agent middlemen, such as manufacturers' representatives and brokers, also sell to other resellers and industrial or commercial customers, but they do not take title to the goods they sell. They usually specialise in the selling function and represent client manufacturers on a commission basis.

Retailers sell goods and services directly to final consumers for their personal, nonbusiness use.

Facilitating agencies, such as advertising agencies, marketing research firms, collection agencies, railway companies, and Web portals, specialise in one or more marketing functions on a fee-for-service basis to help their clients perform those functions more effectively and efficiently.

1.4.2 Who Pays the Cost of Marketing Activities – and Are They Worth It?

The final selling price of the product reflects the costs of performing the activities necessary for exchange transactions. Those costs vary widely across different products and customers. They account for a relatively high proportion of the price of frequently purchased consumer package goods such as cereals and cosmetics. Extensive transportation, storage, and promotion activities facilitate the millions of consumer purchases that occur every year. On average, roughly 50 per cent of the retail price of such products is made up of marketing and distribution costs; one half represents retailer margins, and the other half the marketing expenses of the manufacturer and wholesale middlemen.¹⁹ On the other hand, marketing costs for nontechnical industrial goods, such as sheet steel or basic chemicals, are much lower because they are sold in large quantities directly to a small number of regular customers.

Though both individual and organisational customers pay for the marketing activities of manufacturers and their middlemen, they are still usually better off than if they were to undertake all the functions themselves. This is true for two reasons: First, the purchasing, storage, promotion, and selling activities of wholesalers and retailers allow customers to buy a wide variety of goods from a single source in one transaction, thereby increasing **transactional efficiency**. For example, a consumer may buy a week's groceries on a single trip to the supermarket (or perhaps even over the Internet from a home-delivery service) rather than engage in separate transactions with a butcher, a baker, and a variety of farmers or food processors. Thus, the number of exchanges necessary for a consumer to acquire a desired assortment of goods and services is reduced and efficiency is increased when middlemen are added to an economic system.

A second benefit of an extensive marketing system is that specialisation of labour and economies of scale lead to **functional efficiency**. Manufacturers and their agents can perform the exchange activities more cheaply than can individual customers. A railway, for instance, can ship a load of new tyres from a plant in Akron to a wholesaler in Tucson more cheaply than an individual consumer in Arizona could transport them in the family station wagon.

From the customer's viewpoint, then, the increased transactional and functional efficiency of exchange produced by members of the marketing system increases the value – the **utility/price** relationship – of goods and services. A product has greater utility for a potential customer when it can be purchased with a minimum of risk and shopping time (**possession utility**), at a convenient location (**place utility**), and at the time the customer is ready to use the product (**time utility**).

1.4.3 Room for Improvement in Marketing Efficiency

While the existence of specialised institutions in our economy's marketing system has greatly increased the efficiency and value of most exchange transactions from the customer's point of view, that does not mean the current system is nearly as efficient as it could be. Marketing is one of the few functional areas of business whose efficiency has not substantially

improved in recent years. Two authorities estimate that, on average, manufacturing costs have declined from about 50 per cent of total corporate costs after World War II to about 30 per cent today through automation, flexible manufacturing systems, product redesign for manufacturing, just-in-time approaches, and so on. Similarly, they argue that the average costs of 'management' – defined to include finance, accounting, human resources, and support functions like R&D – have fallen from about 30 per cent to 20 per cent as the result of downsizing, outsourcing, and process re-engineering. On the other hand, they estimate that the percentage of corporate costs accounted for by marketing activities actually went up substantially over the same period.²⁰

Of course, there are some good reasons why marketing costs have increased in recent years, including the greater intensity of global competition, the rapid pace of technological change, the fragmentation of the communications media, and many other factors. Nevertheless, even modest improvements in marketing efficiency could produce dramatic cost reductions, increased profits, and improved customer value in many industries. The American grocery industry alone believes it can cut \$30 billion, or nearly 10 per cent of its annual operating costs, by redesigning its logistics and distribution systems.²¹ We will focus throughout this course on ways marketers are attempting to improve operational efficiency through (1) more effective use of telecommunications and information technologies, (2) the development of cooperative alliances with suppliers, middlemen, and ultimate customers, and (3) the search for new budgeting methods that are more clearly focused on improving cash flows and adding economic value.²²

1.4.4 The Role of the Marketing Decision Maker

The title *marketing manager* is necessarily and intentionally vague because many people are directly involved with an organisation's marketing activities. This can include people not formally located in a marketing or sales department or even within the company. The exact nature of the marketing manager's job will vary widely depending on the industry involved, the organisation's structure, and its position in the managerial hierarchy.

While the marketing manager bears the primary responsibility for formulating and implementing a strategic marketing programme for a product or service, a single marketing manager (1) seldom does all the analysis or makes all the decisions involved in such plans all alone and (2) almost never has the formal authority to demand that all the activities specified in the plan be carried out by subordinates exactly as they are written down.

Many marketing activities are usually contracted out to independent middlemen or facilitating agencies or are performed in concert with a firm's suppliers, major customers, or other organisational partners. A marketing manager has no formal authority over these outsiders. Thus, the development and nurturing of long-term relationships with suppliers, channel members, and major customers can do more than simply improve marketing efficiency; they can provide the information, advice, and cooperation necessary to devise and carry out successful marketing strategies.²³

Even those marketing activities that are performed in-house are seldom all within the domain of the marketing department or under the authority of a single marketing executive. Marketing is – or should be – everybody's business. After all, delivering superior value to customers is the key to business success, and that superior value flows from a combination of well-designed products or services, produced with high quality; efficient operations that enable low costs and competitive prices; and reliable customer service. Creating value is a

cross-functional endeavour, and marketing and nonmarketing executives alike must operate with a clear customer focus to make it happen.

1.5 Some Recent Developments Affecting Marketing Management

While many of the basic tasks involved in developing and implementing strategic marketing programmes have remained unchanged for decades, recent developments in our economy and around the world have greatly changed the context in which those tasks are carried out and the information and tools that marketers have at their disposal. These developments include (1) the increased globalisation of markets and competition, (2) the growth of the service sector of the economy and the importance of service in maintaining customer satisfaction and loyalty, (3) the rapid development of new information and communications technologies, and (4) the growing importance of relationships for improved coordination and increased efficiency of marketing programmes and for capturing a larger portion of customers' lifetime value. Some recent impacts of these four developments on marketing management are briefly summarised below and will be continuing themes throughout this course.

1.5.1 Globalisation

International markets account for a large and growing portion of the sales of many organisations.

But while global markets represent promising opportunities for additional sales growth and profits, differences in market and competitive conditions across country boundaries can require firms to adapt their competitive strategies and marketing programmes to be successful. Even when similar marketing strategies are appropriate for multiple countries, international differences in infrastructure, culture, legal systems, and the like often mean that one or more elements of the marketing programme – such as product features, promotional appeals, or distribution channels – must be tailored to local conditions for the strategy to be effective.

1.5.2 Increased Importance of Service

A service can be defined as 'any activity or benefit that one party can offer another that is essentially intangible and that does not result in the ownership of anything. Its production may or may not be tied to a physical product.'²⁴ Service businesses such as airlines, hotels, restaurants, and consulting firms account for roughly two-thirds of all economic activity in the United States, and services are the fastest-growing sector of most other developed economies around the world. While many of the decisions and activities involved in marketing services are essentially the same as those for marketing physical goods, the intangible nature of many services can create unique challenges for marketers. We will discuss these challenges – and the tools and techniques firms have developed to deal with them – throughout this course.

As the definition suggests, services such as financing, delivery, installation, user training and assistance, and maintenance are often provided in conjunction with a physical product. Such ancillary services have become more critical to firms' continued sales and financial

success in many product-markets. As markets have become crowded with global competitors offering similar products at ever-lower prices, the creative design and effective delivery of supplemental services has become a crucial means by which a company may differentiate its offering and generate additional benefits and value for customers. Those additional benefits, in turn, can justify higher prices and margins in the short term and help improve customer satisfaction, retention, and loyalty over the long term.²⁵

1.5.3 Information Technology

The computer revolution and related technological developments are changing the nature of marketing management in two important ways. First, new technologies are making it possible for firms to collect and analyse more detailed information about potential customers and their needs, preferences, and buying habits. Thus, it is now possible for many firms to identify and target smaller and more precisely defined market segments – sometimes segments consisting of only one or a few customers – and to customise product features, promotional appeals, prices, and financing arrangements to fit such segments.²⁶

A second impact of information technology has been to open new channels for communications and transactions between suppliers and customers. As Exhibit 1.8 suggests, one simple way of categorising these new channels is based on whether the suppliers and customers involved are organisations or individual consumers.

Exhibit 1.8 Categories of e-commerce

	Business	Consumer
	Business-to-Business (B2B)	Business-to-Consumer (B2C)
	Examples:	Examples:
Business	• Purchasing sites of Ford, Oracle, Cisco • Supply chain networks linking producers and distribution channel members, such as 3M and Walmart	• E-tailers, such as E*Trade, Amazon, RedEnvelope • Producers' direct sales sites, such as Dell, British Airways • Websites of traditional retailers, such as Sears, Lands' End
	Consumer-to-Business (C2B)	Consumer-to-Consumer (C2C)
	Examples:	Examples:
Consumer	• Sites that enable consumers to bid on unsold airline tickets and other goods and services, such as Priceline	• Auction sites, such as eBay, QXL

Source: Adapted from 'A Survey of E-Commerce: Shopping Around the Web,' *The Economist*, February 26, 2000, p. 11.

New information and communications technologies are enabling firms to forge more cooperative and efficient relationships with their suppliers and distribution channel partners. For example, Procter & Gamble and 3M have formed alliances with major retailers – such as Walmart – to develop automatic restocking systems. Sales information from the retailer's checkout scanners is sent directly to the supplier's computers, which figure out automatically when to replenish each product and schedule deliveries direct to each of the retailer's stores.

Such paperless exchanges reduce mistakes and billbacks, minimise inventory levels, improve cash flow, and increase customer satisfaction and loyalty.

Internet sales from businesses to consumers (the upper-right quadrant in Exhibit 1.8) accounted for only about \$140 billion (excluding travel) in the United States in 2008.²⁷ However, sales volumes of firms such as Amazon, Dell Computer, and RedEnvelope are expanding rapidly, and many traditional retailers are expanding their marketing efforts on the Web as well. Information available over the Internet is affecting consumer purchase patterns even when the purchases are made in traditional retail outlets. For instance, recent studies indicate that 69 per cent of US consumers research products online before making a purchase, 62 per cent have looked at an online customer review, 39 per cent have compared product features and prices across retail outlets online before buying, and 9 per cent have used a mobile phone to text-message a friend or relative about a product while shopping.²⁸

Clearly, the Web is presenting marketers with new strategic options – as well as new competitive threats and opportunities – regardless of what or to whom they are selling. The changes being wrought by these new technologies are so extensive and profound that we will discuss specific examples and their implications in every module.

1.5.4 Relationships across Functions and Firms

New information technologies and the ongoing search for greater marketing efficiency and customer value in the face of increasing competition are changing the nature of exchange between companies. Instead of engaging in a discrete series of arm's-length, adversarial exchanges with customers, channel members, and suppliers on the open market, more firms are trying to develop and nurture long-term relationships and alliances, such as the one between 3M and Walmart. Such cooperative relationships are thought to improve each partner's ability to adapt quickly to environmental changes or threats, to gain greater benefits at lower costs from its exchanges, and to increase the lifetime value of its customers.²⁹

Similar kinds of cooperative relationships are emerging inside companies as firms seek mechanisms for more effectively and efficiently coordinating across functional departments the various activities necessary to identify, attract, service, and satisfy customers. In many firms, the planning and execution that used to be the responsibility of a product or marketing manager are now coordinated and carried out by cross-functional teams. Thus, the boundaries between functional areas are beginning to blur, and marketing programmes are increasingly a group activity. Regardless of who is responsible or who carries out the work, however, the decisions and activities involved in such marketing programmes remain the same. They are the focus of the rest of this course.

Learning Summary

- Marketing is pervasive. It is a social process involving the activities that facilitate exchanges of goods and services among individuals and organisations.
- Customers buy benefits, not products. The benefits a customer receives from a firm's offering, less the costs he or she must bear to receive those benefits, determine the offering's value to that customer.
- Delivering superior value to one's customers is the essence of business success. Because delivering superior value is a multifunctional endeavour, both marketing and nonmarket-

ing managers must adopt a strong focus on the customer and coordinate their efforts to make it happen.

- A focus on satisfying customer needs and wants is not inconsistent with being technologically innovative.
- The marketing management process requires an understanding of the 4 Cs: the company and its mission, strategies, and resources; the macroenvironmental context in which it operates; customers and their needs and wants; and competitors. Obtaining an objective, detailed, evidence-based understanding of these factors is critical to effective marketing decision making.
- Marketing decisions – such as choices about what goods or services to sell, to whom, and with what strategy – are made or approved at the highest levels in most firms, whether large or small. Therefore, managers who occupy or aspire to strategic positions in their organisations need marketing perspectives and analytical skills.

Review Questions

Content Questions

- I.1 Define marketing.
- I.2 What conditions are necessary for an exchange to take place?
- I.3 Distinguish between a need and a want.
- I.4 What is a market?
- I.5 What does strategic marketing involve?
- I.6 What flows are necessary for an exchange transaction to take place?

Multiple Choice Questions

- I.7 A society cannot reap the full benefits of specialisation until it develops the means to facilitate:
 - A. importation of essentials from other societies.
 - B. production of essentials by each member of society.
 - C. the trade and exchange of surpluses among its members.
 - D. countertrade with other societies.
 - E. production of services in addition to goods.
- I.8 'A social process involving the activities necessary to enable individuals and organisations to obtain what they need and want through exchanges with others' is a definition of:
 - A. distribution.
 - B. marketing.
 - C. barter.
 - D. countertrade.
 - E. industrialisation.

- I.9 The core functional focus of marketing is the ____ of goods and services.
- A. creation.
 - B. distribution.
 - C. pricing.
 - D. promoting.
 - E. exchange.
- I.10 The utilisation of marketing approaches by hospitals, theatres, universities and nonprofit organisations:
- A. has not changed compared to practices in the past.
 - B. has increased substantially in the past decade.
 - C. is outside the domain of marketing per se.
 - D. is only appropriate in for-profit situations.
 - E. has decreased substantially in the past decade.
- I.11 Those who buy goods and services for their own personal use or the use of others in their immediate household are:
- A. utilitarian consumers.
 - B. organisational customers.
 - C. intermediaries.
 - D. industrial customers.
 - E. ultimate consumers.
- I.12 Those who buy goods and services for resale, as inputs to production of other goods or services, or for use in the day-to-day operations of the organisation are:
- A. intermediaries.
 - B. ultimate consumers.
 - C. organisational customers.
 - D. utilitarian consumers.
 - E. countertraders.
- I.13 A gap between a person's actual and desired state on some physical or psychological dimension is a(n):
- A. unsatisfied need.
 - B. want state.
 - C. market inefficiency.
 - D. demand function.
 - E. intermediary.
- I.14 Factors not created by marketers or other social forces, but flowing from basic biological and psychological human makeup, are:
- A. needs.
 - B. wants.
 - C. demands.
 - D. urges.
 - E. requirements.

- I.15 The desire to drink a Coke instead of orange juice is an example of a(n):
- A. urge.
 - B. need.
 - C. demand.
 - D. want.
 - E. requirement.
- I.16 For some brand-loyal customers what does wearing Levi's 501 jeans provide that other jeans cannot?
- A. need fulfilment.
 - B. need creation.
 - C. need recognition.
 - D. want satisfaction.
 - E. either B or C above.
- I.17 In addition to being provided with physical objects, people's needs may be satisfied in a less tangible form through:
- A. differential forms.
 - B. products.
 - C. goods.
 - D. services.
 - E. product modifications.
- I.18 Whether the product actually lives up to expectations and delivers the anticipated benefits determines the customer's ultimate:
- A. satisfaction.
 - B. credence qualities.
 - C. salience.
 - D. demand function.
 - E. choice criteria.
- I.19 Studies have shown that, if their complaint is handled satisfactorily, _____ per cent of those who complain would do business with the same company again.
- A. 10.
 - B. 30.
 - C. 50.
 - D. 70.
 - E. 90.
- I.20 'Individuals and organisations who are interested in buying and willing to buy a particular product to obtain benefits that will satisfy a specific need or want, and who have the resources to engage in such a transaction' is the definition of a(n):
- A. industrial buyer.
 - B. segment.
 - C. opportunity.
 - D. focus group.
 - E. market.

- I.21 When a company is attempting to define its 'niche' in the market as part of its strategic management planning activities, which of the following is it attempting to define?
- A. Why its competitors have not already exploited this niche.
 - B. What is the best promotion vehicle for this market.
 - C. Which segments to target.
 - D. How to position the product.
 - E. Its distribution strategy.
- I.22 Avon's marketing of cosmetics through thousands of part-time door-to-door sales representatives and IBM's marketing of mainframe computers are examples of:
- A. vertically integrated distribution systems, in that they involve manufacturers who sell their own product lines direct.
 - B. horizontally integrated distribution systems, in that the same product is sold in the same setting throughout the areas in which it is available.
 - C. wheel-and-spoke distribution systems, in that a central manufacturer 'spins out' the product from a central point to surrounding distribution points.
 - D. cohesive distribution systems, in that the distribution network is bound together through a common control framework.
 - E. pyramid selling systems, in that these marketers rely upon a system of 'others enlisting others' to increase sales.
- I.23 Groups of institutions or middlemen that distribute goods are known as:
- A. pyramid distribution systems.
 - B. cartels.
 - C. horizontal distribution systems.
 - D. wheel-and-spoke distribution systems.
 - E. marketing channels.
- I.24 A manufacturer's representative for General Electric is an example of which type of 'middleman'?
- A. Retailers.
 - B. Agent middlemen.
 - C. Merchant wholesalers.
 - D. Facilitating agents.
 - E. Commissioned agents.
- I.25 All of the following are examples of facilitating agencies EXCEPT:
- A. marketing research firms.
 - B. advertising agencies.
 - C. accounts receivable collection agencies.
 - D. public relations firms.
 - E. All of the above are examples of facilitating agencies.
- I.26 Those who sell goods and services directly to final consumers for their personal nonbusiness use are:
- A. retailers.
 - B. agent middlemen.
 - C. merchant wholesalers.
 - D. facilitating agents.
 - E. commissioned agents.

- 1.27 About what percentage of the retail price of consumer products consists of the costs of marketing and distribution of these products?
- A. 10 per cent.
 - B. 30 per cent.
 - C. 50 per cent.
 - D. 70 per cent.
 - E. 90 per cent.
- 1.28 Because manufacturers and their agents can perform exchange activities at a lower cost than individual consumers, we say that they have achieved:
- A. price efficiency.
 - B. functional efficiency.
 - C. transaction efficiency.
 - D. vertical integration.
 - E. horizontal integration.
- 1.29 When a consumer purchases a product at a convenient location and when she is ready to use the product, we say that the product has achieved ____ utility and ____ utility, respectively.
- A. time; place.
 - B. place; time.
 - C. possession; place.
 - D. possession; functional.
 - E. time; possession.
- 1.30 Which of the following BEST summarises the way marketing managers communicate to potential customers about their offerings?
- A. Advertising.
 - B. Pricing.
 - C. The product's features.
 - D. Publicity.
 - E. The marketing mix.
- 1.31 Advertising, personal selling, point-of-purchase displays and publicity are related to which elements of the marketing mix?
- A. Place.
 - B. Product.
 - C. Price.
 - D. Promotion.
 - E. Personnel.
- 1.32 Quality, features, style, options, brand name, packaging, guarantees and warranties and service are related to which element of the marketing mix?
- A. Place.
 - B. Price.
 - C. Product.
 - D. Promotion.
 - E. Personnel.

Application Questions and Cases

- I.33 You have just made a substantial monetary contribution to a well-known charitable organisation. Was this an exchange transaction? If so, what was exchanged? What need(s) or want(s) did you satisfy by making your contribution? Which marketing activities do managers of charitable organisations engage in to facilitate a transaction?
- I.34 What is the difference between a customer's need and a customer's want? State which needs (or benefits) might be met by each of the following:
- Toujours Moi perfume.
 - A BMW car.
 - A physical examination at a local hospital.
 - A mainframe computer.

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