

grewal, levy

# marketing

SEVENTH EDITION



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# mar·ket·ing

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

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







Sample

# Marketing

Seventh Edition

**Dhruv Grewal, PhD**

Babson College

**Michael Levy, PhD**

Babson College





## MARKETING, SEVENTH EDITION

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Sample

To our families for their never-ending support.  
To my wife, Diana, my daughter, Lauren, my son-in-law, Chet, and my son, Alex.

—**Dhruv Grewal**

To my wife, Marcia, my daughter, Eva, and my son-in-law, Alex.

—**Michael Levy**







# about the authors



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## Dhruv Grewal

Dhruv Grewal (PhD, Virginia Tech) is the Toyota Chair in Commerce and Electronic Business and a professor of marketing at Babson College. His research and teaching interests focus on direct marketing and e-commerce, marketing research, the broad areas of value-based marketing strategies, services and retailing, and pricing. He is listed in Thomson Reuters' 2014 World's Most Influential Scientific Minds list (only 8 from the marketing field and 95 from economics and business are listed). He is an Honorary Distinguished Visiting Professor of Retailing and Marketing, Center for Retailing, Stockholm School of Economics; an Honorary Distinguished Visiting Professor of Retailing and Marketing, Tecnológico de Monterrey; a GSBE Extramural Fellow, Maastricht University; a Global Chair in Marketing at University of Bath; and has been a Visiting Scholar at Dartmouth. He has also served as a faculty member at the University of Miami, where he was a department chair.

Professor Grewal was ranked first in the marketing field in terms of publications in the top-six marketing journals during the 1991–1998 period and again for the 2000–2007 period, and ranked eighth in terms of publications in *Journal of Marketing* and *Journal of Marketing Research* during the 2009–2013 period. He was also ranked first in terms of publications and third in citations for pricing research for the time period 1980–2010 in 20 marketing and business publications. He has published over 150 articles in *Journal of Marketing*, *Journal of Consumer Research*, *Journal of Marketing Research*, *Journal of Retailing*, *Journal of Consumer Psychology*, *Journal of Applied Psychology*, and *Journal of the Academy of Marketing Science*, as well as many other journals. He has over 45,000 citations based on Google Scholar. He currently serves on numerous editorial review boards, such as *Journal of Marketing* (area editor), *Journal of the Academy of Marketing Science* (area editor), *Journal of Marketing Research*, *Academy of Marketing Science Review*, *Journal of Interactive Marketing*, *Journal of Business Research*, *Journal of Public Policy & Marketing*, and the advisory board for *Journal of Retailing*. He has also served on the boards of *Journal of Consumer Psychology* and *Journal of World Business*. He also received Best Reviewer Awards (*Journal of Retailing*, 2008, *Journal of Marketing*, 2014), Outstanding Area Editor (*Journal of Marketing*, 2017, *Journal of the Academy of Marketing Science*, 2016), and a Distinguished Service Award (*Journal of Retailing*, 2009).

Professor Grewal was awarded the 2017 Robert B. Clarke Outstanding Educator Award (Marketing Edge, formerly DMEF),

2013 university-wide Distinguished Graduate Alumnus from his alma mater Virginia Tech, the 2012 Lifetime Achievement Award in Pricing (American Marketing Association Retailing & Pricing SIG), the 2010 Lifetime Achievement Award in Retailing (American Marketing Association Retailing SIG), the 2005 Lifetime Achievement in Behavioral Pricing Award (Fordham University, November 2005), and the Academy of Marketing Science Cutco/Vector Distinguished Educator Award in May 2010. He is a Distinguished Fellow of the Academy of Marketing Science. He has served as VP Research and Conferences, American Marketing Association Academic Council (1999–2001) and as VP Development for the Academy of Marketing Science (2000–2002). He was coeditor of *Journal of Retailing* (2001–2007).

He has won a number of awards for his research: 2018 William R. Davidson *Journal of Retailing* Best Paper Award (for paper published in 2016); 2017 *Journal of Interactive Marketing* Best Paper Award (for paper published in 2016); 2016 *Journal of Marketing* Sheth Award; 2016 William R. Davidson *Journal of Retailing* Best Paper Award (for paper published in 2014); 2015 Louis W. Stern Award (American Marketing Association Interorganizational SIG); Babson College Faculty Scholarship Award (2015); William R. Davidson *Journal of Retailing* Best Paper Award 2012 (for paper published in 2010); 2011 Best Paper Award (La Londe Conference for Marketing Communications and Consumer Behavior); 2011 Louis W. Stern Award (American Marketing Association Interorganizational SIG); William R. Davidson *Journal of Retailing* Honorable Mention Award 2011 (for paper published in 2009); Babson College Faculty Scholarship Award (2010); William R. Davidson *Journal of Retailing* Best Paper Award 2010 (for paper published in 2008); William R. Davidson *Journal of Retailing* Honorable Mention Award 2010 (for paper published in 2008); 2017 Best Paper Award, Connecting for Good Track, Winter AMA Conference; Stanley C. Hollander Best Retailing Paper, Academy of Marketing Science Conference 2002, 2008, and 2016; M. Wayne DeLozier Best Conference Paper, Academy of Marketing Science 2002 and 2008; Best Paper, CB Track, Winter AMA 2009; Best Paper, Technology & e-Business Track, AMA Summer 2007; Best Paper Award, Pricing Track, Best Services Paper Award (2002), from the American Marketing Association Services SIG presented at the Service Frontier Conference, October 2003; Winter American Marketing Association Conference 2001; Best Paper Award, Technology Track, Summer American Marketing Association Educators' Conference 2000; and University of Miami School of Business Research Excellence Award for 1991, 1995, 1996, and 1998. He has also been a finalist for the 2014 *Journal of Marketing* Harold H. Maynard Award, the 2012 Paul D. Converse Award, and the 2005 Best Services Paper Award from the Services SIG.

Professor Grewal has coedited a number of special issues including *Journal of Public Policy & Marketing* “Pricing & Public Policy” (Spring 1999); *Journal of the Academy of Marketing Science*, “Serving Customers and Consumers Effectively in the 21st Century: Emerging Issues and Solutions” (Winter 2000); *Journal of Retailing*, “Creating and Delivering Value through Supply-Chain Management” (2000); *Journal of Retailing*, “Branding and Customer Loyalty” (2004); *Journal of Retailing*, “Service Excellence” (2007); *Journal of Retailing*, “Customer Experience Management” (2009); and *Journal of Retailing*, “Pricing in a Global Arena” (2012).

He cochaired the 1993 Academy of Marketing Science Conference; the 1998 Winter American Marketing Association Conference “Reflections & Future Directions for Marketing”; Marketing Science Institute Conference (December 1998) “Serving Customers and Consumers Effectively in the 21st Century: Emerging Issues and Solutions”; the 2001 AMA doctoral consortium; the American Marketing Association 2006 Summer Educator’s Conference; the 2008 Customer Experience Management Conference; the 2010 Pricing Conference; the 2011 DMEF research summit; the 2012 AMA/ACRA First Triennial Retailing Conference; the 2013 Pricing & Retailing Conferences; the 2014 Shopper Marketing conference at SSE; and the 2015 AMA/ACRA Second Triennial Retailing Conference.

Professor Grewal has also coauthored *Marketing* (publisher McGraw-Hill, 1e 2008; 2e 2010—Awarded Revision of the Year, McGraw-Hill Corporate Achievement Award with Connect-Marketing in the category of Content and Analytical Excellence; 3e 2012; 4e 2014; 5e 2016; 6e 2018); *M Series: Marketing* (publisher McGraw-Hill, 1e 2009, 2e 2011, 3e 2013, 4e 2015, 5e 2017, 6e 2019); *Retailing Management* (publisher McGraw-Hill, 9e 2014, 10e 2018—is the leading textbook in the field); and *Marketing Research* (publisher Houghton Mifflin Co., 1e 2004, 2e 2007). He was ranked #86 for Books in Business and Investing by Amazon in 2013.

Professor Grewal has won many awards for his teaching: 2005 Sherwin-Williams Distinguished Teaching Award, Society for Marketing Advances; 2003 American Marketing Association, Award for Innovative Excellence in Marketing Education; 1999 Academy of Marketing Science Great Teachers in Marketing Award; Executive MBA Teaching Excellence Award (1998); School of Business Teaching Excellence Awards (1993, 1999); and Virginia Tech Certificate of Recognition for Outstanding Teaching (1989).

He has taught executive seminars/courses and/or worked on research projects with numerous firms such as Dell, ExxonMobil, IRI, RadioShack, Telcordia, Khimetrics Profit-Logic, McKinsey, Ericsson, Motorola, Nextel, FP&L, Lucent, Sabre, Goodyear Tire & Rubber Company, Sherwin-Williams, and Asahi. He has delivered seminars in the United States, Europe, Latin America, and Asia. He has served as an expert witness or worked as a consultant on numerous legal cases. He serves on the Board of Directors of Babson Global, and on the Board of Trustees of Marketing Edge.



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## Michael Levy

**Michael Levy, PhD** (Ohio State University), is the Charles Clarke Reynolds Professor of Marketing Emeritus at Babson College and CEO of RetailProf LLC. He received his PhD in business administration from The Ohio State University and his undergraduate and MS degrees in business administration from the University of Colorado at

Boulder. He taught at Southern Methodist University before joining the faculty as professor and chair of the marketing department at the University of Miami.

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

He was rated as one of the best researchers in marketing in a survey published in *Marketing Educator* (Summer 1997). He has developed a strong stream of research in retailing, business logistics, financial retailing strategy, pricing, and sales management. He has published over 50 articles in leading marketing and logistics journals, including the *Journal of Retailing*, *Journal of Marketing*, *Journal of the Academy of Marketing Science*, and *Journal of Marketing Research*. He has served on the editorial review boards of the *Journal of Retailing*, *Journal of the Academy of Marketing Science*, *International Journal of Physical Distribution and Materials Management*, *International Journal of Business Logistics*, *ECR Journal*, and *European Business Review*, and has been on the editorial advisory boards of *European Retail Research* and *the European Business Review*. He is coauthor of *Retailing Management*, 10e (2019), the best-selling college-level retailing text in the world. Professor Levy was coeditor of the *Journal of Retailing* from 2001 to 2007. He cochaired the 1993 Academy of Marketing Science conference and the 2006 summer AMA conference.

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

# New to the Seventh Edition

## Some exciting new additions to the Seventh Edition!

The seventh edition of *Marketing* sees significant changes. As always, every example, fact, and key term has been checked, updated, and/or replaced. What follows are major changes in the text, chapter-by-chapter.

**Chapter 1: Overview of Marketing** starts with a discussion of how different brands are marketing meal replacement bars, such as protein, whole food, and snack bars, to emphasize the text's cover—how marketing adds value to the meal replacement bar market. Examples using these bars are placed throughout the chapter. There are three new Adding Value boxes: the product line extension of Baby Dove, kids recycling and selling products on e-commerce platforms, and Amazon's new cashless stores. A new Ethical & Societal Dilemma box discusses gender inequality in the coffee market. At the end of the chapter is a new section that sets up the rationale for each of the special boxes included in the text. Finally, we conclude with a new case study highlighting KIND Bars' marketing strategy, a nice tie-back to the opener and the cover concept.

**Chapter 2: Developing Marketing Strategies and a Marketing Plan** begins with a discussion of PepsiCo's Frito-Lay snack brand, and this product line is used in examples throughout the chapter. We also introduce a new Adding Value box highlighting Sally Beauty's updated loyalty program.

**Chapter 3: Digital Marketing: Online, Social, and Mobile** has seen a line-by-line revision to reflect the rapid changes in digital marketing. We have added a new section that discusses the 7C framework for online marketing: core goals, context elements (design and navigation), content, community, communication, commerce, and connection. The chapter starts by highlighting the success that L'Oréal has experienced with its innovative digital marketing efforts. There are two new Ethical & Societal Dilemma boxes: Facebook's emphasis on personal posts over public content, and how Google and YouTube are helping advertisers avoid controversy. A new Adding Value box on Amazon's marketing universe appears. There is also a new Social & Mobile Marketing box that discusses P&G's responsibility in the "Tide Pod Challenge."

**Chapter 4: Conscious Marketing, Corporate Social Responsibility, and Ethics** begins by highlighting how sustainability is at the core of Unilever's development of its Love Beauty and Planet line. We showcase how firms must consider pertinent issues when implementing their marketing strategy using TOMS shoes. There are two new Adding Value boxes, one about a philanthropic partnership between Elbi and David Yurman, and another about Patagonia's challenge to keep conscious marketing a guiding principle in the face of growing its business. A new Ethical & Societal Dilemma box describes how Google has banned the advertising of financial products that may do more harm than good. We end the chapter with a new case study on Daily Table, a nonprofit, membership-based grocery store that serves lower-income areas.

**Chapter 5: Analyzing the Marketing Environment** has gone through a major revision. There is an entirely new section that describes how the physical environment of the store affects the immediate marketing environment. The Social Trends section includes new subsections about sustainability and the utilization and distribution of food. There is also a new section on technological advances and how they influence the marketing environment. The chapter begins with a discussion of how Tesla is responding to customer needs by introducing the Model 3, its first affordable electric car. A new example using Verizon and Sprint shows how competitors affect the marketing environment. There are two new Ethical & Societal Dilemma boxes: The first examines how the electric car is leading to shifts in the auto industry. The second discusses the backlash General Mills faced when it introduced its all-natural Trix cereal. A new Social & Mobile Marketing box describes Pokémon Go. We also include a new example highlighting how women might be the next big market for the gaming industry. A new example examines the response of many companies to the United States

leaving the Paris Accord, and highlights how companies are responding to the environment. Finally, the chapter ends with a new case study on the rise of the electric car.

**Chapter 6: Consumer Behavior** has also undergone a significant revision. The Noncompensatory section now discusses choice architecture, nudges, defaults, and opt out and opt in. The Learning and Memory section now discusses the information encoding stage, information storage stage, and retrieval stage. The Situational Factors section now includes information on the sensory situation, which discusses how the five senses (visual, auditory, olfactory, tactile, and taste) affect marketing. The opener ties in the openers for Chapters 3 and 4 to discuss how consumer behavior influenced L'Oréal's new vegan hair dyes. There are two new Ethical & Societal Dilemma boxes: The first is on CVS' focus on customer health, while the second is about how "certified" may not mean safe. There are also three new Adding Value boxes: The first is about Pirsch's functional showrooms. The second focuses on how La Croix has entered customers' evoked set using social media, and the third highlights how brands are meeting customer demands for healthy snacks with salty alternatives. Finally, the fourth is about Taco Bell's vile deep-fried taco that everyone seems to love. There is also a new Social & Mobile Marketing box about the partnership between Snapchat and Rent the Runway. The chapter ends with a new case study on Amazon's, Google's, and Apple's connected home devices.

**Chapter 7: Business-to-Business Marketing** starts with an interesting discussion on LinkedIn and its new "native video" feature. A new Marketing Analytics box about the artificial intelligence chip being manufactured by Intel with Facebook's help is included. A new Ethical & Societal Dilemma box concerns whether Facebook should be able to block competing advertisers. There is also a new Adding Value box about how Intel is prompting problem recognition with a new advertising campaign featuring Lady Gaga. Finally, a new Social & Mobile Marketing box examines Snapchat's use of advertising.

**Chapter 8: Global Marketing** has a new opener highlighting Apple's global strategy. There is a new Social & Mobile Marketing box about how a social media campaign helped save Nigeria's national currency. There are two new Adding Value boxes: The first explains why Whirlpool is raising prices in foreign markets, while the second describes Starbucks' foray into Italy. There are also two new Ethical & Societal Dilemma boxes. The first examines how fast-food chains are entering no-beef markets, while the second examines how advertising and privacy regulations are causing concern for Google in France. A new example featuring Uber and Spotify is used to highlight strategic alliances.

**Chapter 9: Segmentation, Targeting, and Positioning** opens with how lululemon is targeting male customers. There are two new Adding Value boxes: The first highlights how Nintendo is targeting a more mature market with its Nintendo Switch, while the second examines Under Armour's advertising campaign for extreme runners. There is a new Social & Mobile Marketing box about how teens love to share on social media. A new Ethical & Societal Dilemma box examines how Sanderson Farms targets a market that doesn't mind antibiotics in its poultry. A new example uses the NFL to highlight how brands can use differentiated targeting strategies. A P&G example is used to showcase micromarketing.

**Chapter 10: Marketing Research** begins with a discussion of how American Express uses analytics to better serve customers and businesses. There are two new Adding Value boxes: The first examines the use of data analytics in the restaurant industry, while the second is about how universities are using research to determine what students want to see in their fitness centers. There are also two new Marketing Analytics boxes: The first highlights Under Armour's "connected fitness" program, while the second discusses how big data are used to predict box office revenues. Finally, a new Ethical & Societal Dilemma box discusses the ethical concerns of Roomba's collecting personal data.

**Chapter 11: Product, Branding, and Packaging Decisions** begins with a new opener on Aston Martin's branding strategy. There is also a new Adding Value box about how B&G Foods is bringing back the Jolly Green Giant mascot. New examples include how Häagen-Dazs ice cream has increased its product depth and P&G's use of sustainable packaging.

**Chapter 12: Developing New Products** begins with a discussion of GE's FirstBuild independent innovation arm. A new Adding Value box discusses Mars' Goodness Knows brand's marketing campaign, which films people trying to do something new. There is also a new Ethical & Societal Dilemma box on privacy concerns surrounding smart toys. The shape of

the product life cycle is highlighted with a new example featuring Microsoft's Xbox Kinect. The chapter ends with a new case study on how Mattel is reinventing itself.

**Chapter 13: Services: The Intangible Product** includes an opening vignette that describes how Lyft is innovating the ride-sharing industry by partnering with Taco Bell for its new "Taco Mode." Three new Adding Value boxes appear: The first discusses how a start-up company, Cabin, is delivering a service innovation with its hotels on wheels, the second outlines how virtual reality is enabling travelers to virtually test drive their next vacation; and the third examines how luxury resorts are teaming up with auto manufacturers. A new Social & Mobile Marketing box looks at customer responses to Starbucks' mobile app—while efficient, some customers prefer the old days when baristas wrote misspelled names on the cups, followed by a smiley face. A new example showcases the tech company Motley Fool's peer-to-peer employee recognition system. A new section is outlined in Exhibit 13.6 that discusses the various ways in which technology is augmenting the human effort. A new case study examining artificial intelligence in customer service closes the chapter.

**Chapter 14: Pricing Concepts for Capturing Value** describes new pricing strategies at Kroger in the opening vignette, including the pricing of its different private brands, digital pricing shelf tags, the use of dynamic pricing, and in-store mobile applications. An Adding Value box examines the trade-off that Taco Bell customers apparently do not make with regard to trading off price and value. How dynamic pricing is used to price tickets for Major League Baseball is examined in a new Marketing Analytics box.

**Chapter 15: Strategic Pricing Methods and Tactics** opens with an examination of Tiffany & Co.'s unsuccessful product line expansion. A new Adding Value box describes the price drop at Whole Foods following its acquisition by Amazon. The chapter also includes new examples featuring UberXL and Apple.

**Chapter 16: Supply Chain and Channel Management** opens with a new vignette highlighting Nike's supply chain. There is a new Adding Value box about how grocers are developing their own dairy farms, forming a vertically integrated marketing channel. There are two new Ethical & Societal Dilemma boxes: The first examines the pros and cons associated with driverless trucking, while the second discusses how technology advances adversely affect retail workers. The importance of supply chain management is highlighted in a new example about Brown Betty Dessert Boutique.

**Chapter 17: Retailing and Omnichannel Marketing** begins with a discussion of the implications of Amazon's acquisition of Whole Foods. The 4Ps of retailing have been expanded to the 6Ps with the addition of *presentation* and *personnel*. Target's private-label expansion is examined in a new Adding Value box. A Social & Mobile Marketing box examines Sephora's clever and risqué tactics. The chapter ends with a new case study about how Ashley Stewart, a once-struggling apparel brand catering to African American women, became the largest plus-size retailer in the United States.

**Chapter 18: Integrated Marketing Communications** opens with a description of how Toyota is creating ads to spice up the Camry's image and appeal to different demographic groups. There is a new Social & Mobile Marketing box on how BuzzFeed's Tasty, the division responsible for producing the site's vastly popular and widely viewed videos, is revolutionizing marketing. A new Adding Value box appears highlighting how Eggo has leveraged its role in the TV show *Stranger Things*.

**Chapter 19: Advertising, Public Relations, and Sales Promotions** starts with examinations of Volkswagen's nostalgic campaign. Exhibit 19.2 showcases new examples of emotional appeals in advertising. There are two new Ethical & Societal Dilemma boxes. The first examines some old advertising campaigns that would shock today's viewers, like the one that attempts to get mothers to give chewing gum to their toddlers. The second describes how Volkswagen is trying to put its emissions standards scandal behind it with its new "Think New" advertising campaign. A new example compares the advertising campaigns of the new Hyundai Kona and the Subaru Outback. The Mastercard end-of-chapter case study has been updated to include its most recent "Start Something Priceless" campaign.

**Chapter 20: Personal Selling and Sales Management** includes a new Marketing Analytics box on how technology and data are changing sales management. A new Adding Value box describes how Tupperware is empowering Indonesian women.

# a letter from the authors

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

## How We Show That Marketing Adds Value

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

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

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

## How We Teach the Basics of Marketing

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



**Chapter-Opening Vignettes** focus on some of the marketplace challenges faced by such well-known companies as KIND and Kashi bars, L'Oréal, Kroger, PepsiCo, and others.

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

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

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

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

## Why We Believe in the Value of Marketing

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

**Dhruv Grewal,**  
*Babson College*

**Michael Levy,**  
*Babson College*



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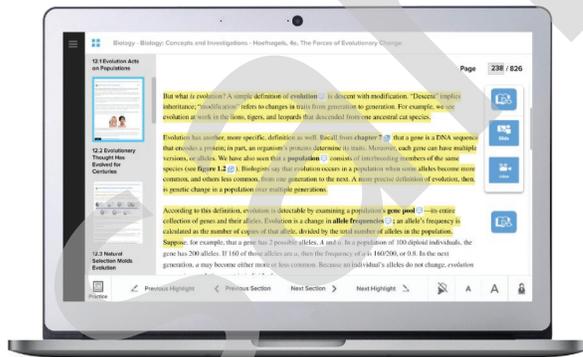
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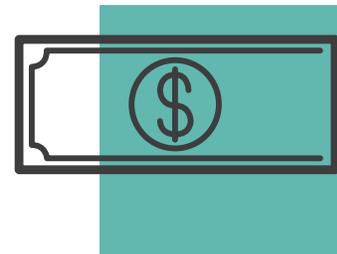


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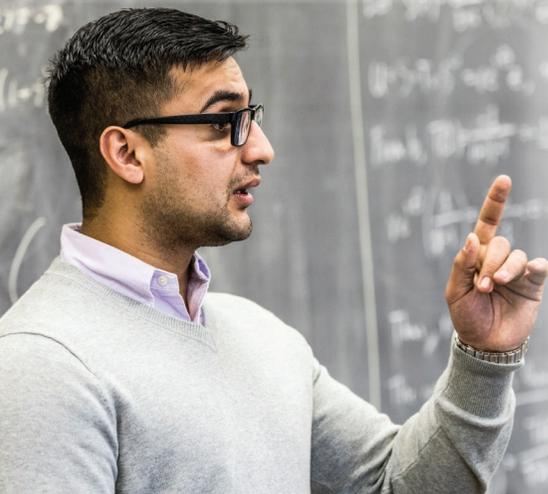
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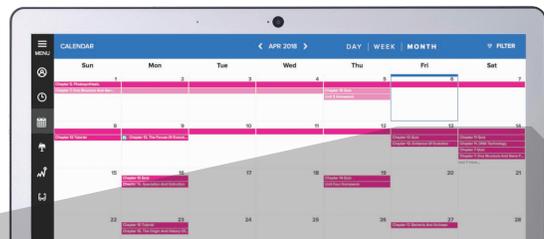
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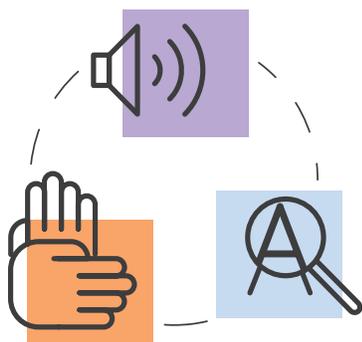
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## No surprises.

The Connect Calendar and Reports tools keep you on track with the work you need to get done and your assignment scores. Life gets busy; Connect tools help you keep learning through it all.



13	14
Chapter 12 Quiz	Chapter 11 Quiz
Chapter 13 Evidence of Evolution	Chapter 11 DNA Technology
	Chapter 7 Quiz
	Chapter 7 DNA Structure and Gene...
	and 7 more...



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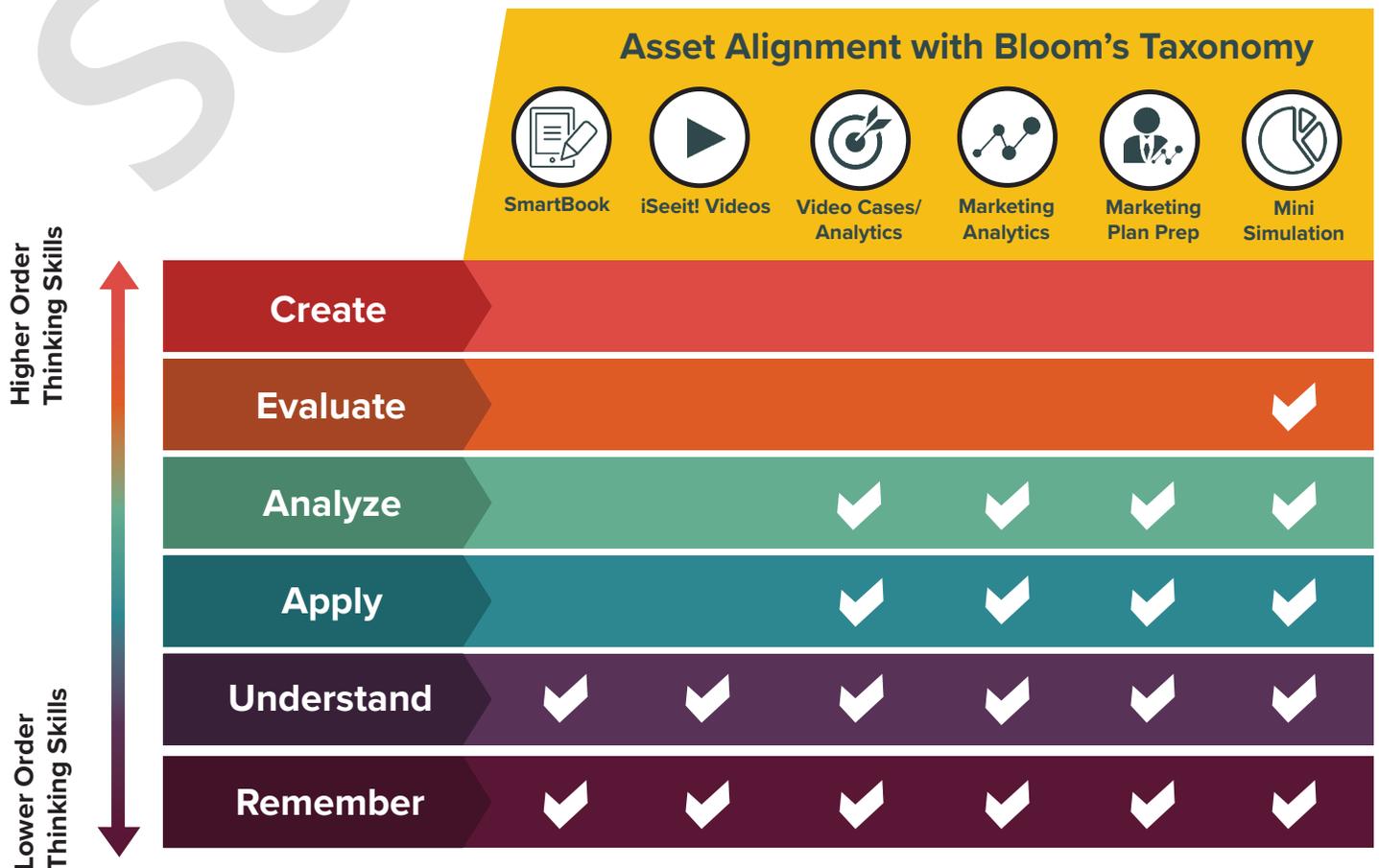
# Asset Alignment with Bloom's Taxonomy

## Principles of Marketing

### We Take Students Higher

As a learning science company we create content that supports higher order thinking skills. Interactive learning tools within *McGraw-Hill Connect* are tagged accordingly, so you can filter, search, assign, and receive reports on your students' level of learning. The result—increased pedagogical insights and learning process efficiency that facilitate a stronger connection between the course material and the student.

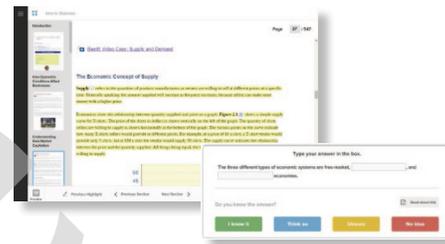
The chart below shows a few of the key assignable marketing assets with *McGraw-Hill Connect* aligned with Bloom's Taxonomy. Take your students higher by assigning a variety of applications, moving them from simple memorization to concept application.



# SmartBook



- Adaptively aids students to study more efficiently by highlighting where in the chapter to focus, asking review questions and pointing them to resources until they understand.



# iSeeit! Videos



- Short, contemporary videos provide engaging, animated introductions to key course concepts. Available at the chapter level. Perfect for launching lectures and assigning pre- or post-lecture.



# Video Cases & Case Analyses



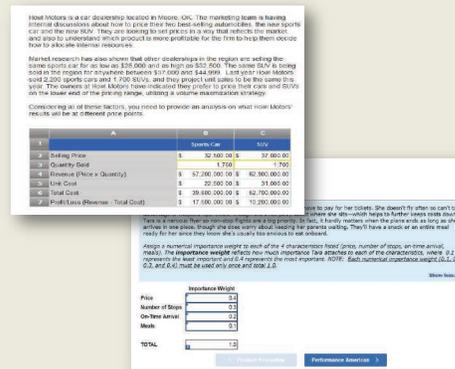
- Mini-cases and scenarios of real-world firms accompanied by questions that help students analyze and apply marketing theory and other core concepts.



# Marketing Analytics



- These newest auto-graded, data analytics activities challenge students to make decisions using metrics commonly seen across Marketing professions. The goal of this activity is to give students practice analyzing and using marketing data to make decisions.



# Marketing Plan Prep



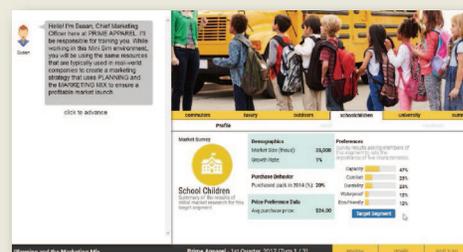
- These exercises use guided activities and examples to help students understand and differentiate the various elements of a marketing plan.



# Mini Simulation



- Marketing Mini Sims help students apply and understand the interconnections of elements in the marketing mix by having them take on the role of Marketing Manager for a backpack manufacturing company.
- Mini Sims can be assigned by topic or in its entirety.



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Courtesy of GE FirstBuild



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## SECTION 1

### Assessing the Marketplace

Understanding the Marketplace

Targeting the Marketplace

Value Creation

Value Capture

Value Delivery: Designing the Channel and Supply Chain

Value Communication



# ASSESSING THE MARKETPLACE

## CHAPTER 1

Overview of Marketing

## CHAPTER 2

Developing Marketing Strategies and a Marketing Plan

## CHAPTER 3

Digital Marketing: Online, Social, and Mobile

## CHAPTER 4

Conscious Marketing, Corporate Social Responsibility, and Ethics

## CHAPTER 5

Analyzing the Marketing Environment

Section One: Assessing the Marketplace contains five chapters. Following an introduction to marketing in Chapter 1, Chapter 2 focuses on how a firm develops its marketing strategy and a marketing plan. A central theme of that chapter is how firms can effectively create, capture, deliver, and communicate value to their customers. Chapter 3 is devoted to understanding how to develop social and mobile marketing strategies. In Chapter 4, conscious marketing is introduced, and corporate social responsibility is woven into the overarching conscious marketing framework. Then the role of the stakeholders in conscious marketing, both internal and external to the firm, is examined. An ethical decision framework is developed and presented. Finally, Chapter 5, Analyzing the Marketing Environment, focuses on how marketers can systematically uncover and evaluate opportunities.



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## LEARNING OBJECTIVES

After reading this chapter, you should be able to:

- L01-1** Define the role of marketing.
- L01-2** Detail the evolution of marketing over time.
- L01-3** Describe how marketers create value for a product or service.

## CHAPTER 1

# OVERVIEW OF MARKETING



On your way to class today, did you grab a bite to eat? If you're like many students, you did not have enough time or the ingredients needed to prepare a fresh meal and sit down to eat it. Instead, you might have pulled an energy bar from your cupboard or snagged one from the coffee shop on the way to campus. Why do so many people lean on these energy bars—pressed rectangles of various grains, fruits, nuts, and so forth—rather than other options as meal replacements or snacks throughout the day?

Your individual answers might vary, but the overriding answer has a lot to do with marketing. Companies that produce and sell energy bars work hard to position them as appealing, convenient, tasty, healthy, socially responsible, and energy-dense foods that can help nearly any consumer meet his or her consumption needs. By making a product that can satisfy virtually every demand a consumer might have, these marketers ensure that their offerings provide value.

Consider, for example, the umbrella term often used to describe these prepared foods. By highlighting the term *energy*, marketers inform consumers that they can expect a boost when they eat one of these products. But energy really is just another word for calories; every food item a human being ever consumes provides energy.<sup>1</sup> Still, with this emphasis, the marketing surrounding energy bars offers a valuable promise to consumers, namely, that they will be energized and able to continue on with their day after they eat one.

Beyond this basic premise, various brands leverage other elements to communicate the value of their products. According to one classification, this market consists of five general types: meal replacement bars, protein bars, whole food bars, snack bars, and others.<sup>2</sup> Other classifications are even more specific, reflecting more detailed, unique benefits, such as paleo, gluten-free, low-carb, low-calorie, and workout recovery options.<sup>3</sup>

For example, the brand name adopted by Phyter bars refers to their unique contents: phytonutrient-dense vegetable and fruit purees.<sup>4</sup> KIND puts its healthy bars' promised benefits even more obviously in its brand name. With a positioning that suggests that consuming these bars supports a healthy lifestyle, KIND's marketing department emphasizes its natural ingredients—along with its commitment to being “kind” and proactively seeking the good of the world overall (as we discuss further in the case study that concludes this chapter).<sup>5</sup>

In establishing an even more specific promise of natural ingredients, Kashi's emphasis is largely on the organic contents of its products, as well as its efforts to encourage expanded organic production of wheat and other ingredients. For farmers, switching from conventional to organic methods is costly and time-consuming. To position itself as the organic option in this market, Kashi has developed a program to help farmers make the transition, then publicizes this information widely to ensure customers regard it as an appealing choice.<sup>6</sup>

But other brands are less interested in healthy or natural offerings and more oriented to appealing to consumers' sense of pleasure. For example, Fiber One bars might promise the healthy benefit of more fiber, but General Mills also works hard to communicate their products' great taste. The bars themselves, and the pictures on the boxes, sport heavy "drizzles" of chocolate, as well as pretzels, salty nuts, and candy pieces mixed in with the grains and fruits.<sup>7</sup> Even confectionary brands such as Snickers and Mars offer entries in this market, placing what are essentially candy bars in store aisles next to more protein-dense offerings.<sup>8</sup>

The pictures on the boxes are not the only packaging elements that are critical to the appeal of energy bars. By

designing the products as single-serve, relatively small portions, the companies provide convenience benefits for consumers.<sup>9</sup> They can be tucked easily into a backpack or suitcase. Most of them contain preservatives, such that they can sit in a pantry or desk drawer for months without going bad.

That may be exactly why you grabbed one on your way to class today: It was readily available from your kitchen and easy to stick in your bag. A banana or apple, as well as a conventional candy bar, might offer some similar benefits and convenience. Yet the value established by good marketing, which helps consumers see the appeal of energy bars, makes it more likely that you opted for one of these snacks instead.

**L01-1** Define the role of marketing.

## WHAT IS MARKETING?

Unlike other subjects you may have studied, marketing already is very familiar to you. You start your day by agreeing to do the dishes if your roommate will make the coffee. But doing the dishes makes you late for class, so you dash out the door and make a quick stop to fill up your car with gas and grab an energy bar for breakfast. You attend a class that you have chosen and paid for. After class, you pick up lunch at the cafeteria, which you eat while reading a book on your iPad. Then you leave campus to have your hair cut and take in a movie. On

your bus ride back to school, you pass the time by buying a few songs from Apple's iTunes. In each case, you have acted as the buyer and made a decision about whether you should part with your time and/or money to receive a particular product or service. If, after you return home, you decide to sell some clothes on eBay that you don't wear much anymore, you have become a seller. In each of these transactions, you were engaged in marketing.

The American Marketing Association (AMA) states that **marketing** is "the activity, set of institutions, and processes for creating, *capturing*, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large."<sup>10</sup> Good marketing is not a random activity; it requires thoughtful planning with an emphasis on the ethical implications of any of those decisions on society in general. That is, good marketing should mean doing good for the world at large, while also benefiting the firm and its customers. To achieve these long-term goals, firms develop a **marketing plan** (Chapter 2) that specifies the marketing activities for a specific period of time. The marketing plan also is broken down into various

### EXHIBIT 1.1 Core Aspects of Marketing



components—how the product or service will be conceived or designed, how much it should cost, where and how it will be promoted, and how it will get to the consumer. In any exchange, the parties to the transaction should be satisfied. In our previous example, you should be satisfied or even delighted with the power bar you selected, and Kashi or KIND should be satisfied with the amount of money it received from you. Thus, the core aspects of marketing are found in Exhibit 1.1. Let's see how these core aspects look in practice.

## Marketing Is about Satisfying Customer Needs and Wants

Understanding the marketplace, and especially consumer needs and wants, is fundamental to marketing success. In the broadest terms, the marketplace refers to the world of trade. More narrowly, however, the marketplace can be segmented or divided into groups of people who are pertinent to an organization for particular reasons. For example, the entire world needs to eat, but makers of energy bars first identify people who might consume their products (which excludes, for example, babies). Then they divide that marketplace into various categories: busy people who want a convenient snack, as well as those who replace entire meals with energy bars; elite athletes who seek high-calorie contents; health-conscious consumers who demand high levels of protein and low sugars; snackers who instead demand great taste, without worrying too much about the nutrition label; and even socially conscious buyers who believe that purchasing an organic product gives them a way to help farmers. If you manufacture and sell energy bars, you need to know for which marketplace segments your product is most relevant, then make sure you build a marketing strategy that targets those groups. If instead you are the maker of Dove beauty products, you introduce an extended range of products to appeal to more of the various groups, as Adding Value 1.1 explains.



### Adding Value 1.1

#### The Baby Dove Product Line Extension and Its Context<sup>i</sup>

For years, Dove marketed only cleaning and personal care products for women. A few years ago, it added the Dove Men+Care line, and today, it is expanding into products for babies, including wipes, lotions, and baby washes. Although the extension certainly seems like a reasonable move, it also might constitute a competitive strategy, designed to take advantage of the struggles of other big names in the baby care market.

Dove is well known for its moisturizing products, so it argues that an extension that leverages this expertise for a different type of consumer is utterly appropriate. In addition, it gained recent experience with product line extensions when it introduced its lines of products for men. Much of the advertising Dove already uses (targeting both male and female consumers) features families too, such that it does not seem like much of a stretch to focus on the babies that already appear in the ads.

Moreover, the approach Dove is taking when introducing the new product lines resonates with its long-standing efforts to support consumers' sense of self-worth. The marketing communications used to introduce the new products strongly emphasize the idea that there is no "perfect parent" and that there are innumerable, appropriate ways to take care of a baby. Dove is there to help in all those situations, never to make parents feel as if they are failing to do their jobs well enough. Similarly, in advertising to male consumers, Dove seeks to acknowledge and recognize modern men's caregiving roles, so it can link these communications to its baby care products too.



*Dove seeks to acknowledge and recognize modern men's caregiving roles, so it can link these communications to its baby care products.*

*Source: Unilever*

These discussions and rationales make it seem like the product line extension is a no-brainer. But history also shows that many companies struggle to gain a foothold in markets for baby care products. For example, Huggies has great name recognition for diapers, but it was unable to get parents to purchase bath products under that brand. As Dove moves its baby products into more and more markets, both domestically and abroad, it hopes that the consistency of its approach will lead to success instead.

## EXHIBIT 1.2 Exchange: The Underpinning of Seller–Buyer Relationships



### Marketing Entails an Exchange

Marketing is about an **exchange**—the trade of things of value between the buyer and the seller so that each is better off as a result. As depicted in Exhibit 1.2, sellers provide products or services, then communicate and facilitate the delivery of their offering to consumers. Buyers complete the exchange by giving money and information to the seller. Suppose you learn about the new Phyter bar from a friend’s tweet or a foodie newsletter to which you subscribe.<sup>11</sup>

To learn more, you might visit the company’s website, where you learn that the bars are available mainly in stores in the Chicagoland area, but you can order a box for delivery. To complete the order, you have to give the company your billing and address information, which represents another exchange. If you sense that you are giving up too much in the exchange, because it takes too long to fill in all your billing information for every individual site you visit, you might prefer to search for another energy bar option on Amazon, where you place orders all the time, so you do not have to enter your credit card number or other information again. Furthermore, Amazon creates a record of your purchase, which it uses, together with your other purchase trends, to create personalized recommendations of other luscious treats that you might like. Thus, Amazon uses the valuable information you provide to facilitate future exchanges and solidify its relationship with you.



*Marketing is about an exchange—you give your time, information, and money to Phyter, and they give you a great energy bar.*

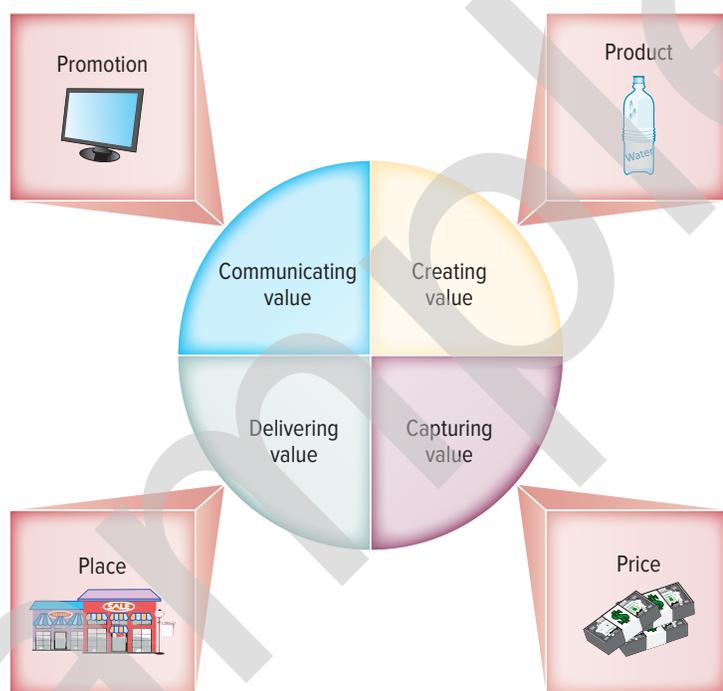
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### Marketing Creates Value through Product, Price, Place, and Promotion Decisions

Marketing traditionally has been divided into a set of four interrelated decisions and consequent actions known as the **marketing mix**, or **four Ps**: product, price, place, and promotion (as defined in Exhibit 1.3).<sup>12</sup> The four Ps are the controllable set of decisions or activities that the firm uses to respond to the wants of its target markets. But what does each of these activities in the marketing mix entail?

**Product: Creating Value** The first of the four Ps is product. Although marketing is a multifaceted function, its fundamental purpose is to create value by developing a variety of offerings, including goods, services, and ideas, to satisfy customer needs. Energy bars have gained traction in the market because consumers had needs that were not being met by existing offerings, such as cold cereal, fruit, or traditional candy bars. The first bars were designed for astronauts; in the 1960s, people thrilled with the space race snapped up

## EXHIBIT 1.3 The Marketing Mix



Pillsbury Space Food Sticks, right alongside their Tang.<sup>13</sup> But the more modern iterations started off with PowerBar marketed as dense nutrition options for marathoners and other extreme athletes who have to consume massive amounts of calories to maintain their body mass. As PowerBar flew off the shelves, competitors such as Clif Bar and Balance Bar entered the market. People liked the idea of eating like an elite athlete, even if they were not one.<sup>14</sup> This market continued to grow, so new brands designed new products that would appeal to different audiences. Weight Watchers produced a bar that it touted, mostly to women, as a diet aid. Moving away from the space-age image of the first bar, Lärabar and RXBAR promise all-natural, “real” food ingredients.<sup>15</sup> Thus the many different product versions in the general category of energy bars each create value in specific ways (as we discussed in the opener to this chapter), whether by offering convenience, taste, or a sense of healthiness.<sup>16</sup>

**Goods** are items that you can physically touch. A KIND or Kashi bar, a Rolex watch, Nike shoes, Pepsi-Cola, a Frappuccino, Kraft cheese, Tide, an iPad, and countless other products are examples of goods. Goods primarily function to fulfill some need, such as satiating hunger or cleaning clothing. But their ultimate value stems from what they provide—and how they are marketed—in terms of convenience (e.g., energy bars instead of a cooked breakfast), status (e.g., Rolex instead of Timex watch), performance (innovative Nike sneakers), taste, and so forth.

Unlike goods, **services** are intangible customer benefits that are produced by people or machines and cannot be separated from the producer. When people buy tickets—whether for airline travel, a sporting event, or the theater—they are paying not for the physical ticket stub but, of course, for the experience they

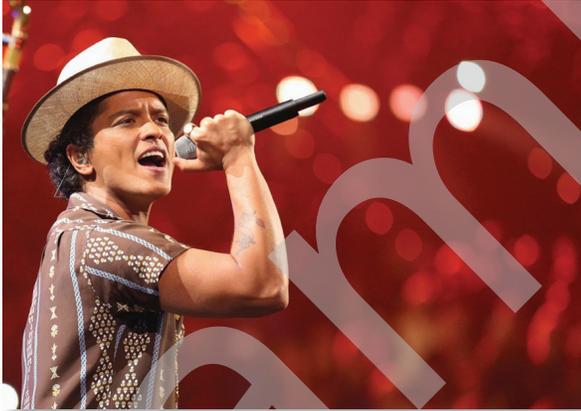


*A watch is a watch is a watch, right? Wrong! All watches are goods, and they tell the time. But Rolex is marketed as a status brand.*

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JetBlue has enhanced its customer experience by enabling its fliers to peruse Amazon content or invest in a Prime membership.

©aradaphotography/Shutterstock



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

©Rich Polk/Clear Channel/Getty Images



Marketing creates value by promoting ideas, such as bicycle safety.

Source: Street Smart, a public safety campaign of Metro, the District of Columbia, Maryland, and Virginia.

gain. For example, JetBlue offers Wi-Fi-enabled flights at no charge as a service to customers.<sup>17</sup> It also realized that many passengers used this service to visit shopping websites, so it expanded its service offerings, in partnership with Amazon, to make it easy for fliers to peruse Amazon content or invest in a Prime membership. Hotels, insurance agencies, and spas provide services too. Getting money from your bank, whether through an ATM or from a teller, is another example of using a service. In this case, cash machines usually add value to the banking experience because they are conveniently located, fast, and easy to use.

Many offerings in the market combine goods and services.

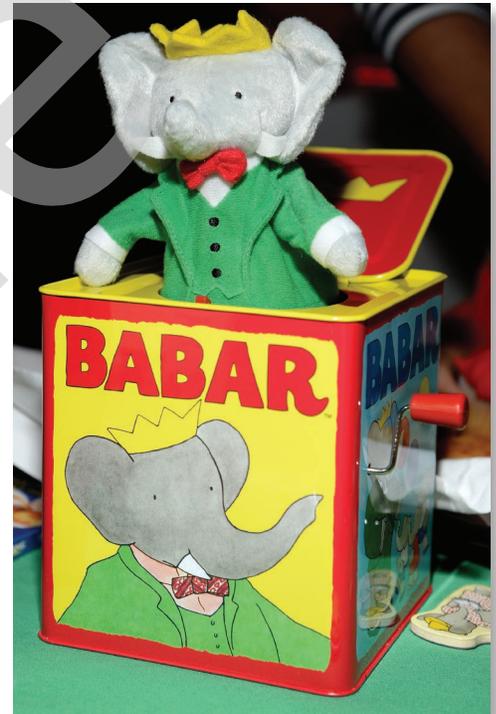
When you go to an optical center, you get your eyes examined (a service) and purchase new contact lenses (a good). If you attend a Bruno Mars concert, you can be enthralled by the world-class performance. To remember the event, you might want to pick up a shirt or a souvenir from the concert. With these tangible goods, you can relive and remember the enjoyment of the experience over and over again.

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

**Price: Capturing Value** The second of the four Ps is price. Everything has a price, although it doesn't always have to be monetary. Price, therefore, is everything the buyer gives up—money, time, and/or energy—in exchange for the product.<sup>18</sup> Marketers must determine the price of a product carefully on the basis of the potential buyer's belief about its value. For example, JetBlue Airways can take you from New York to Denver. The price you pay for that service depends on how far in advance you book the ticket, the time of year, and whether you want to fly coach or business class. If you value the convenience of buying your ticket at the last minute for a ski trip between Christmas and New Year's Day and you want to fly business class, you can expect to pay four or five times as much as you would for the cheapest available ticket. That is, you have traded off a lower price for convenience. For marketers, the key to determining prices is figuring out how much customers are willing to pay so that they are satisfied with the purchase, while the seller still achieves a reasonable profit.

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

Place also deals specifically with retailing and **marketing channel management**, also known as **supply chain management**. Supply chain management is the set of approaches and techniques that firms employ to efficiently and effectively integrate their suppliers, manufacturers, warehouses, stores, and other firms involved in the transaction (e.g., transportation companies) into a seamless value chain in which merchandise is produced and distributed in the right quantities, to the right locations, and at the right time, while minimizing systemwide costs and satisfying the service levels required by the customers. Many marketing students initially overlook the importance of marketing channel management because a lot of these activities are behind the scenes. But without a strong and efficient marketing channel system, merchandise isn’t available when customers want it. Then customers are disappointed, and sales and profits suffer.



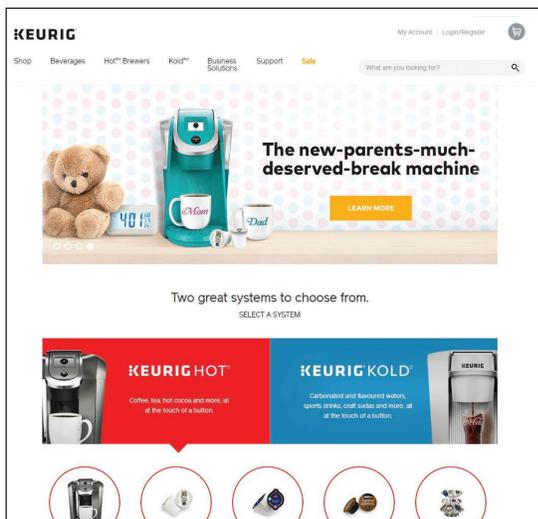
The promotion for Babar’s 80th anniversary was not only designed to sell books; it also embraced a sense of nostalgia for the beloved character.

©Anthony Behar/Sipa USA/Newscom

**Promotion: Communicating the Value Proposition** The fourth P is promotion. Even the best products and services will go unsold if marketers cannot communicate their value to customers. Promotion is communication by a marketer that informs, persuades, and reminds potential buyers about a product or service to influence their opinions and elicit a response. Promotion generally can enhance a product’s or service’s value. When the publisher of the well-known Babar books wanted to celebrate the 80th anniversary of the series, it initiated a \$100,000 campaign. Working in collaboration with toy stores and bookstores, the campaign did not just suggest people buy the books and read about an elephant king. Instead, it embraced a sense of nostalgia and evoked a simpler time, in which grandparents might read pleasant stories to their grandchildren.<sup>19</sup>

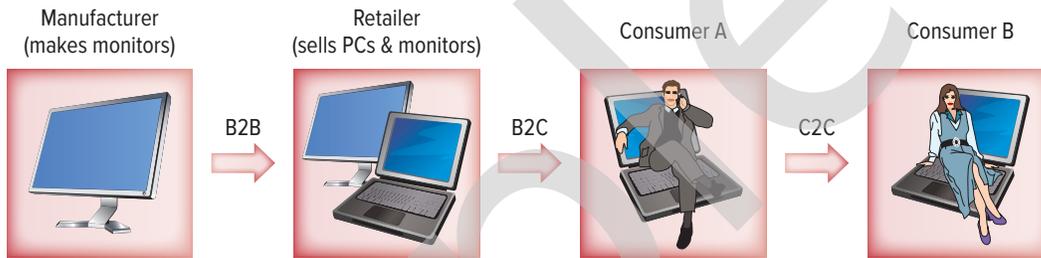
### Marketing Can Be Performed by Individuals and Organizations

Imagine how complicated the world would be if you had to buy everything you consumed directly from producers or manufacturers. You would have to go from farm to farm buying



When Keurig sells its machines and coffee to you on its website (left), it is a B2C sale, but when it sells similar items for office use, it is a B2B transaction (right).

(Left): Source: Keurig Green Mountain, Inc.; (right): ©Sergi Alexander/Getty Images

**EXHIBIT 1.4** Marketing Can Be Performed by Individuals and by Organizations


your food and then from manufacturer to manufacturer to purchase the table, plates, and utensils you need to eat that food. Fortunately, marketing intermediaries such as retailers accumulate merchandise from producers in large amounts and then sell it to you in smaller amounts. The process by which businesses sell to consumers is known as **business-to-consumer (B2C) marketing**; the process of selling merchandise or services from one business to another is called **business-to-business (B2B) marketing**. When Keurig sells its machines and coffee to you on its website, it is a B2C sale, but when it sells similar items for office use, it is a B2B transaction. Through various Internet sites such as eBay and Etsy, consumers market their products and services to other consumers. This third category, in which consumers sell to other consumers, is **consumer-to-consumer (C2C) marketing**, and the appeal of this channel continues to grow, as Adding Value 1.2 describes. These marketing transactions are illustrated in Exhibit 1.4.

Individuals can also undertake activities to market themselves. When you apply for a job, for instance, the research you do about the firm, the résumé and cover letter you submit with your application, and the way you dress for the interview and conduct yourself during it are all forms of marketing activities. Accountants, lawyers, financial planners, physicians, and other professional service providers also constantly market their services one way or another.

The screenshot shows the Amazon website search results for "nike". The search bar shows "All Departments" and "nike". The results are sorted by "Relevance". The products listed include:

- NIKE Men's Tanjun Premium Sneakers: \$49.99 - \$300.95 (prime), 445 reviews
- NIKE Legend Short Sleeve Tee: \$14.99 - \$39.99 (prime), 804 reviews
- NIKE Women's Pro Tights: \$39.01 - \$102.79 (prime), 7 reviews
- Nike Stefan Janoski Max Mens Sneakers: \$39.99 - \$258.00 (prime), 426 reviews
- NIKE Women's Everyday Lightweight Footies (3 Pair): \$8.32 - \$57.06 (prime), 116 reviews
- NIKE Men's Sportswear Just Do It Swoosh Tee: \$14.98 - \$40.60 (prime), 104 reviews

*Nike is now sold on Amazon. Amazon gets to sell Nike in return for policing nonauthorized Nike sellers.*

Source: Amazon.com, Inc.

## Marketing Affects Various Stakeholders

Most people think of marketing as a way to facilitate the sale of products or services to customers or clients. But marketing can also affect several other stakeholders (e.g., supply chain partners, society at large). Partners in the supply chain include wholesalers, retailers, or other intermediaries such as transportation or warehousing companies. All of these entities are involved in marketing to one another. Manufacturers sell merchandise to retailers, but the retailers often have to convince manufacturers to sell to them. After many years of not being able to purchase products from Nike on Amazon, the two giants are now trading partners. In return for being able to sell the much-sought-after brand, Amazon has agreed to no longer allow unauthorized sellers to sell Nike products.<sup>20</sup>



## Adding Value 1.2

## The Kids Are Marketing All Right: Recycling and Selling on E-Commerce Platforms<sup>ii</sup>

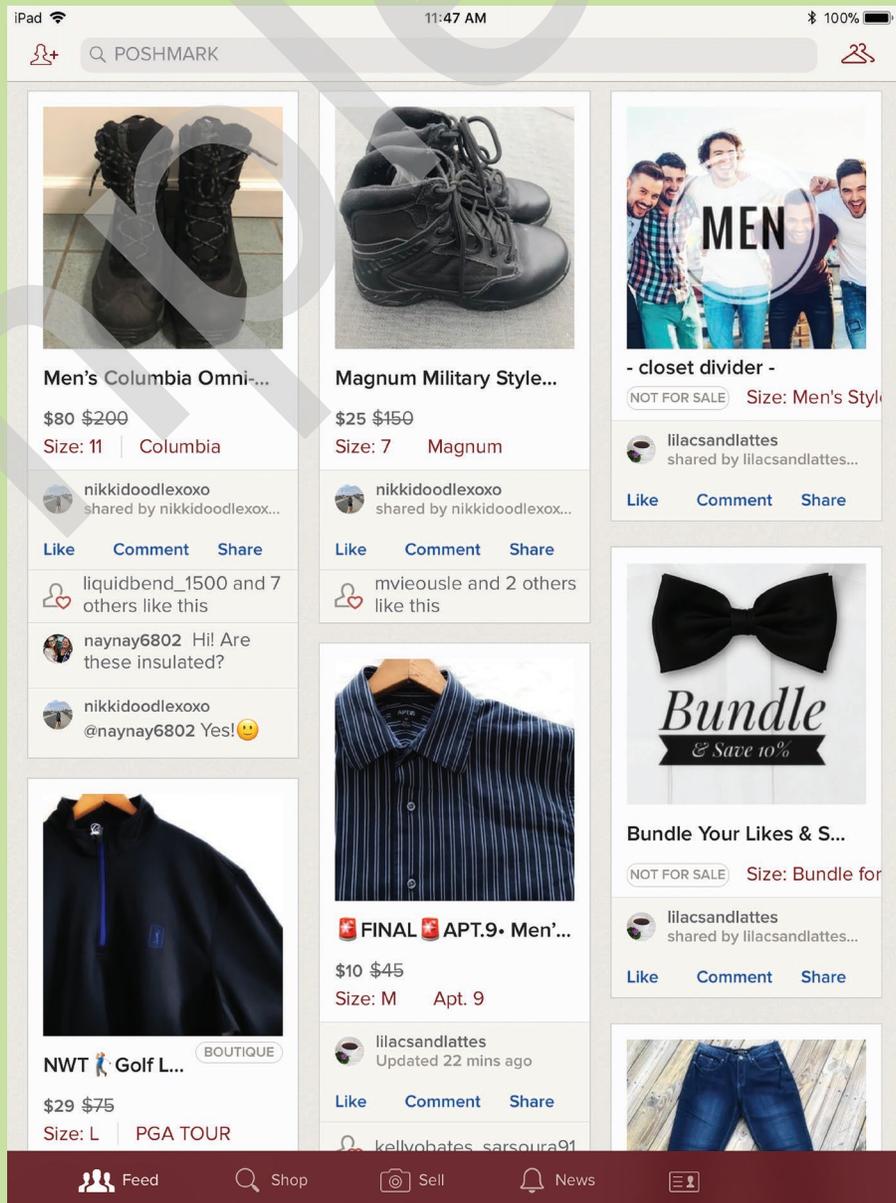
Rather than waiting for retailers to stock the fashions they want or for their parents to give them enough money to purchase the latest fashion, teenagers have embraced a recycling economy in e-commerce settings. Functioning as both sellers and buyers, the young consumers have prompted the emergence of retail platforms that reflect their unique competencies and needs.

On the Poshmark app, for example, teens can earn credits for products they sell. They are not required to provide a credit card, as is standard on many other e-commerce sites. Then they can use the credits to buy other items available on the site. Poshmark also offers social networking capabilities and an intuitive process for uploading photos and descriptions of the items for sale. To facilitate the supply chain, it allows sellers to print out shipping labels, ready to slap onto a box getting mailed to a buyer.

The consumers on such sites enjoy the distinctiveness they can achieve. Rather than going to the mall to buy the same things that everyone else is wearing, they can find unique, one-of-a-kind items. Accordingly, a recent survey suggests that more teenaged consumers shop resale and recycling sites than shop at once popular retail chains such as Abercrombie & Fitch.

When these buyers shift to selling mode, they also obtain several notable advantages. An obvious one is the chance to make money. One New York teen has leveraged his sense of fashion by selling rare sneakers effectively and frequently enough to earn more than \$100,000 last year. He notes his fervent anticipation to purchase a luxury car—as soon as he is old enough to drive, that is.

Beyond the direct earnings, the young resellers gain valuable experience with sales, marketing, and retailing. Many of them customize products, such as one savvy seller who buys out-of-fashion merchandise at a low cost, then cuts, dyes, and decorates the items to make them more stylish.

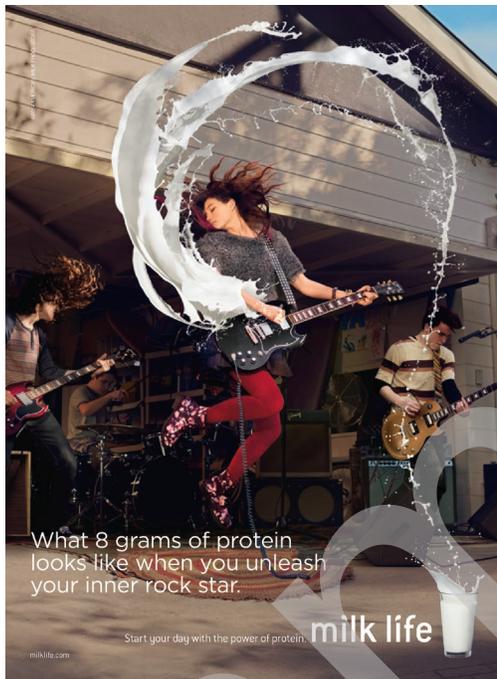


Teenagers have embraced a recycling economy by using apps like Poshmark.

Source: Poshmark

Thus a \$10 pair of blue jeans was transformed into an acid-washed pair of pink denim shorts with frayed hems, which she sold for \$75.

Interviews with some of these entrepreneurs indicate their growing understanding of the four Ps of marketing: They recommend finding distinctive products that can set the wearer apart; promoting the offerings using vivid descriptions, pricing them to sell quickly, and uploading new offerings at times when buyers are most likely to make a purchase (e.g., evening hours, after school).



The “Milk Life” and “Body by Milk” marketing campaigns create a high level of awareness for the milk industry.

(Left): Courtesy of Lowe Campbell Ewald and MilkPEP; (right): ©Jonathan Ferrey/Getty Images

Marketing also can aim to benefit an entire industry or society at large. Ethical & Societal Dilemma 1.1 details how one coffee company is seeking to improve the lives of women throughout the world. On a broader level, the dairy industry as a whole targets its “Milk Life” and “Body by Milk” campaigns at different target segments, including parents, their children, and athletes. Through this campaign, the allied milk producers have created high levels of awareness about the benefits of drinking milk, including the high levels



## Ethical & Societal Dilemma 1.1

### Making a Family Business More Valuable by Addressing Gender Inequality in the Coffee Market<sup>iii</sup>

Worldwide, the coffee supply chain is dominated by women—not that most marketing in this industry would indicate that. Rather than the conventional images of a male farmer walking a burro along rows of coffee beans in fields, the reality is that women perform approximately 70 percent of the work involved in getting beans to market and into consumers’ cups. Together with the misleading imagery, gender inequality throughout the supply chain has meant that in many places, female farmers are underpaid, excluded from negotiations, or limited in the competitive moves they are allowed to make.

For one small, family-owned gourmet coffee company in Minnesota, that situation led to the inspiration for a new way to market its products. As the second generation of the family took over the company, Alakef Coffee Roasters, from her parents, Alyza Bohbot first determined that she did not want simply to keep doing what her parents had done, because she believed that brand had reached a plateau. It was not growing anymore, and its marketing and branding had remained the same for years.

Upon taking over, Bohbot decided to attend a conference of the International Women’s Coffee Alliance. There she heard a story of a farmer from Colombia who lost her farm after her husband died because women were not allowed to make decisions about property. With this growing recognition of the gender inequality that marked her industry, Bohbot realized that she could turn a negative into a positive. The company initiated a new brand, City Girl Coffee, dedicated to ensuring the empowerment and employment of women throughout the supply chain. It purchases beans only from cooperatives and farms that are owned or managed by women. In addition, it donates 5 percent of its profits to nonprofit industry groups that are committed to supporting women.

In line with these initiatives, City Girl is unapologetically feminine in its marketing. Beyond the brand name, the packaging is bright pink. The logo depicts a clearly feminine figure on a scooter, and the mission statement asserts straightforwardly, “We are bringing awareness and equality to the coffee industry.”

of protein, potassium, and calcium it provides. The focus is largely on how drinking milk for breakfast fits in with a healthy lifestyle that helps people maintain their focus, weight, and muscle mass. Even the industry’s charitable campaigns resonate with this notion: The Great American Milk Drive, run in conjunction with Feeding America, seeks to ensure that local food banks are sufficiently stocked with this nutritious, frequently requested item. Such campaigns benefit the entire dairy industry and promote the health benefits of drinking milk to society at large.

### PROGRESS CHECK

1. What is the definition of marketing?
2. Marketing is about satisfying \_\_\_\_\_ and \_\_\_\_\_.
3. What are the four components of the marketing mix?
4. Who can perform marketing?



## THE IMPORTANCE OF MARKETING OVER TIME

**L01-2** Detail the evolution of marketing over time.

Firms spend billions of dollars in the United States and worldwide on marketing initiatives. Without such spending, and the marketing jobs associated with it, the global economy would plummet. If all ad spending on television and on streaming services such as Hulu were to disappear, consumers would wind up paying around \$1,200 per year to access about a dozen channels each. Some currently available channels that appeal to relatively small, niche audiences likely would not be able to survive, though, so the options would shrink overall. Removing all marketing spending would also affect many websites. For example, Facebook is so widespread and popular it likely could make up for any lost advertising revenues by charging users about \$12 per year, and most users probably would be willing to pay that rate. However, the charges would severely limit Facebook’s spread into less developed nations, where \$12 is more than many people earn in a period of two weeks. Other sites, such as BuzzFeed, would likely disappear altogether.<sup>21</sup>

But marketing didn’t get to its current level of prominence among individuals, corporations, and society at large overnight.<sup>22</sup> To understand how marketing has evolved into its present-day, integral business function of creating value, let’s look for a moment at some of the milestones in marketing’s short history (see Exhibit 1.5).

### EXHIBIT 1.5 Marketing Evolution: Production, Sales, Marketing, and Value



Photos (left to right): ©Ryan McVay/Getty Images; ©CMCD/Getty Images; ©Lawrence Manning/Getty Images; ©Ryan McVay/Getty Images; ©McGraw-Hill Education/Mark Dierker, photographer

## Production-Oriented Era

Around the turn of the 20th century, most firms were production oriented and believed that a good product would sell itself. Henry Ford, the founder of Ford Motor Company, once famously remarked, “Customers can have any color they want so long as it’s black.” Manufacturers were concerned with product innovation, not with satisfying the needs of individual consumers, and retail stores typically were considered places to hold the merchandise until a consumer wanted it.

## Sales-Oriented Era

Between 1920 and 1950, production and distribution techniques became more sophisticated; at the same time, the Great Depression and World War II conditioned customers to consume less or manufacture items themselves, so they planted victory gardens instead of buying produce. As a result, manufacturers had the capacity to produce more than customers really wanted or were able to buy. Firms found an answer to their overproduction in becoming sales oriented: They depended on heavy doses of personal selling and advertising.

## Market-Oriented Era

After World War II, soldiers returned home, got new jobs, and started families. At the same time, manufacturers turned from focusing on the war effort toward making consumer products. Suburban communities, featuring cars in every garage, sprouted up around the country, and the new suburban fixture, the shopping center, began to replace cities’ central business districts as the hub of retail activity and a place to just hang out. Some products, once in limited supply because of World War II, became plentiful. And the United States entered a buyers’ market—the customer became king! When consumers again had choices, they were able to make purchasing decisions on the basis of factors such as quality, convenience, and price. Manufacturers and retailers thus began to focus on what consumers wanted and needed before they designed, made, or attempted to sell their products and services. It was during this period that firms discovered marketing.

## Value-Based Marketing Era

Most successful firms today are market oriented.<sup>23</sup> That means they generally have transcended a production or selling orientation and attempt to discover and satisfy their customers’ needs and wants. Before the turn of the 21st century, better marketing firms recognized that there was more to good marketing than simply discovering and providing what consumers wanted and needed; to compete successfully, they would have to give their customers greater value than their competitors did. (The importance of value is appropriately incorporated into the AMA definition of marketing.)

**Value** reflects the relationship of benefits to costs, or what you *get* for what you *give*.<sup>24</sup> In a marketing context, customers seek a fair return in goods and/or services for their hard-earned money and scarce time. They want products or services that meet their specific needs or wants *and* that are offered at a price that they believe is a good value. A good value, however, doesn’t necessarily mean the product or service is inexpensive. If it did, luxury goods manufacturers would go out of business. There are customers willing to pay asking prices for all types of goods at all price levels because, to those individuals, what they get for what they give is a good value. This point is central to the marketing strategy adopted by Whole Foods, as Adding Value 1.3 explains.

A creative way to provide value to customers is to engage in **value cocreation**.<sup>25</sup> In this case, customers can act as collaborators to create the product or service. When clients work with their investment advisers, they cocreate their investment portfolios; when Nike allows customers to custom design their sneakers, they are cocreating.

During the past couple of decades, as a way to build value marketers have used a **relational orientation** because they have realized that they need to think about their customers in terms of relationships rather than transactions.<sup>26</sup> To build relationships, firms focus on the lifetime profitability of the relationship, not how much money is made during each transaction. Thus, Apple makes its innovations compatible with existing products to encourage consumers to maintain a long-term relationship with the company across all their



## Adding Value 1.3

### The Meaning of Best Value: Whole Foods' Purpose-Based Marketing<sup>iv</sup>

Some analysts looking at Whole Foods' dwindling sales numbers and decreased earnings would feel the solution to these issues is obvious: The grocery chain should lower its prices so that consumers consider the company and its products more valuable. It did, in fact, lower its prices after it was acquired by Amazon, but those reductions have almost vanished recently. Whole Foods rejects that notion, though, arguing instead that value means far more than prices. And it has several ideas in mind to prove that it is right.

To start, it introduced a new Responsibly Grown sourcing program, which identifies all fresh produce and flowers according to their environmental impact.

The program is stringent in its demands. When vendors exert minor environmental impacts, they are rated good; those producers that go further by, for example, minimizing wasteful plastic usage or ensuring conservation areas for bees, earn a ranking better. The producers identified as the best address a vast range of responsibility initiatives, from working conditions for farmers to conservation efforts to clean energy to renewable resources and so on. For example, one criterion asks farmers how many earthworms live in the soil on their farms.

This produce-oriented initiative follows Whole Foods' existing efforts, such as its Eco-Scale rating system applied to cleaning products and separate programs to determine the sustainability and responsibility associated with animal and fish products. Furthermore, it has considered introducing



*Whole Foods' Responsibly Grown rating program identifies all fresh produce and flowers according to their environmental impact.*

*©Justin Sullivan/Getty Images*

labels that indicate whether any particular food item contains any genetically modified ingredients.

In parallel with these new initiatives, Whole Foods developed a revised advertising campaign, with a prominent tagline that reminds shoppers that "Values matter." The commercials emphasize that by shopping at Whole Foods, consumers can be confident that their food has been sourced responsibly and fairly. For example, any beef purchased in the stores has been raised by responsible ranchers who give the cows "room to roam."

By promoting the idea that "value is inseparable from values," Whole Foods seeks to remind shoppers of all that it provides, in exchange for a somewhat higher price point. In particular, it promises that they can make their food choices confidently, buoyed by a range of information that Whole Foods will make available to them at all times.

electronic needs. This relationship approach uses a process known as **customer relationship management (CRM)**, a business philosophy and set of strategies, programs, and systems that focus on identifying and building loyalty among the firm's most valued customers. Firms that employ CRM systematically collect information about their customers' needs and then use that information to target their best customers with the products, services, and special promotions that appear most important to them.

In the next section, we explore the notion of value-based marketing further. Specifically, we look at various options for attracting customers by providing them with better value than the competition does. Then we discuss how firms compete on the basis of value. Finally, we examine how firms transform the value concept into their value-driven activities.

## PROGRESS CHECK

1. What are the various eras of marketing?





*Apple makes its new products compatible with existing ones to maintain a long-term relationship with its customers.*

©Spencer Platt/Getty Images

L01-3

Describe how marketers create value for a product or service.

## HOW DOES MARKETING CREATE VALUE, AND HOW DO FIRMS BECOME MORE VALUE DRIVEN?

Value stems from four main activities that value-driven marketers undertake. We describe them in the remainder of this chapter, and these four activities also are reflected in the contents of the boxes that appear throughout this book: Adding Value, Marketing Analytics, Ethical & Societal Dilemma, Superior Service, and Social & Mobile Marketing. First, to ensure that their offerings are valuable, firms leverage all the various elements of marketing and work to build relationships with partners and customers to introduce their product, service, or idea to the marketplace at just the place and time that customers want it. Second, they gather vast information about customers and competitors, then analyze it and share it across their own organization and with other partner firms, such as those that provide promotion and social media services. Third, they strive to balance the benefits and costs of their offerings for not just themselves and their customers, but also their communities and society as a whole. Fourth, they take advantage of new technologies and connect with their customers using the latest social media channels.

### Adding Value

As we have consistently noted, value is central to marketing. Thus the first element we describe appears frequently throughout the book, in boxes that we call Adding Value. Value-oriented marketers constantly measure the benefits that customers perceive against the cost of their offerings. They use available customer data to find opportunities to satisfy their customers' needs better, keep down costs, and develop long-term loyalties. For example, as Adding Value 1.4 describes, Amazon continually looks for ways to make it more convenient for shoppers to obtain the products it sells and thus to keep them coming back.

### Marketing Analytics

Modern marketers rely on sophisticated data analytics to define and refine their approaches to their customers and their markets. The growth of big data and the associated challenges are inescapable, so the Marketing Analytics boxes in this textbook detail their implications for a wide range of organizations and firms, as well as their customers. In particular, companies such as Starbucks, CVS, Kroger, Netflix, and Amazon collect massive amounts of data



## Adding Value 1.4

### Is There Cash Value of No Cash? Amazon Thinks So<sup>v</sup>

Amazon has determined that consumers rarely use cash anymore, so it is increasingly seeking technology-supported, seamless innovations to eliminate it altogether, whether on-line or in physical stores—along with most of the human staffers who previously were required to take the dollar bills and make change. In Amazon’s technologically advanced experimental Go store, located in its Seattle headquarters, customers can shop for groceries without ever pulling a payment form out of their pockets. As they enter the store, they scan their phone to identify themselves. Then cameras mounted throughout the store track and monitor their movements, including whether they place particular items in their shopping baskets. After completing their shopping trip, they simply walk out, and their account gets charged for the items they have selected.

This sophisticated operation continues to deal with various challenges, though, which is part of why Amazon has opened the Go store only to employees thus far. For example, the monitors have difficulty following individual customers when the store is very crowded. The underlying software does not rely on facial recognition, to avoid privacy concerns, so each shopper is represented simply as a three-dimensional figure. Specifying each individual customer thus is difficult if they are bunched together in a crowd.

In addition, the software has not quite perfected its ability to recognize precisely which product a customer has selected. Tubs of sour cream and cottage cheese look pretty much the same to a video monitor, for example. Human shopping habits complicate this effort even further, in that when people grab products from the shelf, their hands often cover the label information that might allow the program to determine precisely which item they have chosen.



*The Amazon experimental Go store is so high-tech that it doesn't even take cash.*

©Rocky Grimes/Shutterstock

For now at least, store personnel are still required for some functions, such as to check identification when shoppers want to buy age-restricted products like alcohol. But conceivably, such tasks could be performed by advanced technology in the near future, implying the possibility of daily shopping experiences totally devoid of human service providers. Such experiences might be far in the future, especially considering the bugs in the system and shoppers’ continued appreciation for friendly interactions with human salesclerks. Still, Amazon has an “unwritten rule” that any new innovation must offer the promise of being expandable on a vast scale—a novel idea cannot be just a one-time goof, to see if it can be done. Thus the likelihood that Amazon Go stores will spread, adding value in various locations, seems high.

about how, when, why, where, and what people buy, and then analyze those data to inform their choices. Marketing Analytics 1.1 gives an extended account of how Starbucks uses its data to make critical decisions about one of the four Ps: the place to locate its stores.

## Social and Mobile Marketing

Marketers have steadily embraced new technologies such as social and mobile media to allow them to connect better with their customers and thereby serve their needs more effectively. The Social & Mobile Marketing boxes that crop up in each chapter aim to provide timely views on some of the most prominent examples. Businesses take social and mobile media seriously and include these advanced tools in the development of their marketing strategies, though as Social & Mobile Marketing 1.1 explains, even these efforts might not be sufficient to keep up with consumers’ rapidly changing demands. Yet 97 percent of marketers assert that they use social media tools for their businesses.<sup>27</sup> That’s largely because approximately 4.2 billion people link to some social media sites through their mobile devices.<sup>28</sup>



*Kroger collects massive amounts of data about how, when, why, where, and what people buy, and then analyzes those data to better serve its customers.*

©Daniel Acker/Bloomberg/Getty Images



## Marketing Analytics 1.1

### Location, Location, Analytics: Starbucks' Use of Data to Place New Stores<sup>vi</sup>

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

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



*Starbucks uses geographic information system (GIS) technology to pinpoint ideal locations and determine which kinds of stores to open in those locations.*

*©Bhandol/Alamy Stock Photo*

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



*Marketers are increasingly connecting with their customers via mobile devices.*

*©Tanya Constantine/Getty Images*

Yet even with this astounding penetration, only 20 percent of the world's population uses Facebook—which means 80 percent still has not signed up.<sup>29</sup> The United States and United Kingdom may be approaching saturation, but there is still huge growth potential for social networks. Before users can sign up for Facebook, they need access to high-speed Internet. Other countries continue to experience higher Facebook growth rates as they gain greater Internet access and as Facebook becomes available in more languages (around 140 currently). The global average Internet penetration rate hovers below 50 percent, with massive populations in Africa and Asia still limited in their access.<sup>30</sup>

Beyond social media sites, online travel agencies such as Expedia, Travelocity, Orbitz, Priceline, and Kayak have become the first place that users go to book travel arrangements. In 2015, almost 150 million bookings, representing 57 percent of all travel bookings, were made on the Internet. Sixty-five percent of same-day bookings were made from

mobile devices.<sup>31</sup> Customers who book hotels using travel agencies become loyal to the agency that gives them the lowest prices rather than to any particular hotel brand. So hotels are using social media and mobile applications to lure customers back to their specific brands by engaging in conversations with them on Facebook and allowing fans of the page



## Social & Mobile Marketing 1.1

### What Comes Around: Marketing Today<sup>vii</sup>

The signs of the growth of mobile advertising, at the expense of other digital forms such as desktops and laptops, have long been evident. But the speed with which this shift is occurring is taking many marketers by surprise because it is virtually unprecedented. Consider some of the numbers: In 2009, mobile Internet ad spending was \$1.3 billion, whereas in 2018 it is projected to be \$125 billion. Within just a couple of years, mobile advertising will be a bigger market than digital advertising.

Both forms are similar, in the sense that they are clearly distinct from traditional marketing and seek to reach technologically savvy shoppers. But they require unique approaches and marketing plans because a campaign that works well on a user's desktop computer might not function effectively on a tablet or smartphone. Furthermore, mobile marketing offers functionalities and advertising tactics that digital ads cannot provide. For example, mobile advertising allows brands and

marketers to send timely, location-based communications to consumers at the moment they enter a store or begin a search for a nearby restaurant on their phones.

Another trend occurring apace with this shift is the rise of ad-blocking technology. Apple now allows users to install software to block banner ads in digital channels. Although consumers indicate that they would like the ability to block advertising in mobile settings as well, marketing messages contained within apps continue to be prevalent. In this sense, advertisers might seek to expand and improve their mobile marketing to avoid the barriers that consumers can implement on their desktops. In the longer term, though, the shift to more mobile marketing likely implies the need for new forms of communication, including game-oriented, social content, and informational advertising that does not really look like advertising at all.

to book their hotel reservations through Facebook. Some hotel chains have mobile applications that allow customers to make changes to their reservations, shift check-in and check-out times, and add amenities or services to their stays. The hotels know a lot about their customers because they collect information about their previous visits, including the type of room they stayed in, their preferences (from pillows to drinks consumed from the minibar), and the type of room service they prefer.

Several restaurant chains are exploiting location-based social media applications.<sup>32</sup> By using location-based apps on their mobile phones, customers can use, for example, HappyCow to find nearby vegetarian restaurants or Yelp to find restaurants that are well rated by users.



*Make travel arrangements online either through Facebook or your mobile app and check-in is a breeze.*

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Buffalo Wild Wings attracts young and tech-savvy customers to its restaurants by offering contests and games through mobile devices.

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Buffalo Wild Wings suggests that its diners check in to its locations using their phones. The target customers for this chain are young and tech savvy, and with its in-house games and sports broadcasts, Buffalo Wild Wings is uniquely situated to encourage customers to connect and bring along their friends. It offers contests and encourages frequent visits to win. Customers can earn free chicken wings or soft drinks within their first three visits. Buffalo Wild Wings' Game Break allows customers to play fantasy-style and real-time games for prizes, whether they are in-store using a tablet or anywhere at all on their smartphones.<sup>33</sup>

### Ethical and Societal Dilemma

Should marketing focus on factors other than financial profitability, like good corporate citizenry? Many of America's best-known corporations seem to think so—they have undertaken various marketing activities such as developing greener products, making healthier food options and safer products, and improving their supply chains to reduce their carbon footprint. At a more macro level, firms are making ethically based decisions that benefit society as a whole, while also considering all of their stakeholders, as the grocers in Ethical & Societal Dilemma 1.2 exemplify. This revised view of the responsibilities and roles of marketers reflects a concept we refer to as *conscious marketing*, which we cover in more detail in Chapter 4.

Socially responsible firms recognize that including a strong social orientation in business is a sound strategy that is in both its own and its customers' best interest. It shows the consumer marketplace that the firm will be around for the long run and can be trusted with the marketplace's business. In a volatile market, investors view firms that operate with high



## Ethical & Societal Dilemma 1.2

### Free Fruit for Children: What Could Go Wrong?<sup>viii</sup>

Childhood obesity is a serious, global problem. For parents, shopping with hungry kids who demand sugary snacks sometimes might seem like an equally vexing challenge. In an effort to help resolve both concerns, several grocery store chains are offering a new kind of appealing giveaway. Specifically, these grocers set up stands that display a range of fruits, with signs offering the produce for free to children under a certain age.

The idea is that a banana or apple at the start of the shopping trip can keep kids from getting hungry and cranky, thus making the shopping experience more pleasant for their parents. The fruit options are more healthful and less troublesome than other options, such as the free cookies or doughnuts that some in-store bakeries provide for young shoppers. Because the fruit is free, it also offers notable benefits over packaged chocolate bars, fruit snacks, or granola bars that parents might open in the aisles before they check out.

The fruit giveaway experiments have expanded globally, with chains in the United States, United Kingdom, and Australia all taking part. Although many responses have been positive, including parents' praise for stores that help them encourage healthful eating by their children, others question the tactic. The key complaint has been hygiene, in that there are



Should grocery stores offer free fruit to children?

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few options for washing fruit such as apples, peaches, and pears before children bite down. Still, the generally positive responses have led at least one chain to estimate that it will give away approximately 1 million pieces of fruit over the next year.

levels of corporate responsibility and ethics as safe investments. Similarly, firms have come to realize that good corporate citizenship through socially responsible actions should be a priority because it will help their bottom line in the long run.<sup>34</sup>

## PROGRESS CHECK

1. Does providing a good value mean selling at a low price?
2. How are marketers connecting with customers through social and mobile media?



## Reviewing Learning Objectives

### L01-1 Define the role of marketing.

Formally, marketing is “the activity, set of institutions, and processes for creating, *capturing*, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.”<sup>35</sup> But marketing has a prominent role in every person’s daily life, whether he or she is exchanging money for conventional products, exchanging personal information for services, or exchanging time for a cause that gives him or her a good feeling. It includes a vast range of stakeholders, including not just the firm and the customer but also other members of the supply chain, communities, and society as a whole. Furthermore, the foundation of all marketing can be summarized in the four Ps, such that marketing defines the product, price, place, and promotion that firms use to get their offerings into consumers’ hands.

### L01-2 Detail the evolution of marketing over time.

Marketing has evolved from a production- or sales-oriented approach, in which firms told people what they could and should buy, to a market- and value-oriented perspective. In this more recent view, firms look to their markets to tell them what they need to produce and provide, in a way that creates value for them and their customers.

### L01-3 Describe how marketers create value for a product or service.

Value stems from at least four main activities that value-driven marketers undertake and are reinforced throughout the book:

- Adding value, such that they leverage various elements of marketing and work to build relationships with partners and customers to ensure that they introduce their product, service, or idea to the marketplace at just the place and time that customers want it.
- Marketing analytics, which companies use to gather vast amounts of information about customers and competitors, then analyze it and share it across their own organization and with partner firms.
- Social and mobile marketing, to take advantage of new technologies and connect with customers using the latest social media channels.
- Ethical and societal dilemmas, such that firms engage in conscious marketing that takes into account the benefits and costs of their actions for all stakeholders.

## Key Terms

- business-to-business (B2B) marketing, 10
- business-to-consumer (B2C) marketing, 10
- consumer-to-consumer (C2C) marketing, 10
- customer relationship management (CRM), 15
- exchange, 6
- four Ps, 6
- goods, 7
- ideas, 8
- marketing, 4
- marketing channel management, 9
- marketing mix, 6
- marketing plan, 4
- relational orientation, 14
- service, 7
- supply chain management, 9
- value, 14
- value cocreation, 14

## Marketing Digitally

1. Visit the websites for KIND ([www.kindsnacks.com](http://www.kindsnacks.com)), Kashi ([www.kashi.com](http://www.kashi.com)), and Snickers and Mars ([www.snickersandmarsproteinbars.com](http://www.snickersandmarsproteinbars.com)) bars. What value do these manufacturers provide customers? How are their value propositions different?
2. Go to Facebook.com and navigate to the “About” section. What is Facebook’s mission? How could marketers use Facebook, and what other social media tools could they use? What are the drawbacks marketers might face when using Facebook to communicate with their customers?
3. Visit Mondelez International’s website ([www.mondelez-international.com](http://www.mondelez-international.com)) and then click on the “Brand Family” link. In what major categories does Mondelez have brands? Can you identify related categories in which the company should compete?

## Marketing Applications

1. Do you know the difference between needs and wants? When companies that sell coffee develop their marketing strategy, do they concentrate on satisfying their customers’ needs or wants? What about a utility company, such as the local power company or a humanitarian agency, such as Doctors without Borders?
2. People can apply marketing principles to finding a job. If the person looking for a job is the product, describe the other three Ps.
3. What is the difference between a good and a service? When you buy a music subscription on Pandora, are you buying a good or a service? Would your answer be different if you bought an MP3 album on Amazon?
4. One of your friends was recently watching TV and saw an advertisement that she liked. She said, “Wow, that was great marketing!” Was the ad, in fact, marketing?
5. Using the four Ps, discuss how Kashi creates value for customers with its Kashi bars.
6. Explain how a \$45 Timex watch and a \$10,000 Rolex watch deliver value to respective target markets? Which factors account for the dramatic difference in watch prices?
7. Assume you have been hired into the marketing department of a major consumer products manufacturer such as Nike. You are having lunch with some new colleagues in other departments—finance, manufacturing, and logistics. They are arguing that the company could save millions of dollars if it just got rid of the marketing department. Develop an argument that would persuade them otherwise.
8. Why do marketers like those at Apple find it important to embrace societal needs and ethical business practices? Provide an example of a societal need or ethical business practice that Apple is addressing.

## Quiz Yourself

1. Which of the following is *not* a function of marketing’s value creation process?
    - a. Capturing value
    - b. Delivering value
    - c. Communicating value
    - d. Exchanging value
    - e. All of these are part of marketing’s value creation process.
  2. Value creation is the central activity of marketing. Which is not a benefit to the firm from engaging in value creation and the ongoing process of identifying value-adding options for consumers?
    - a. The firm is able to satisfy consumer needs.
    - b. The firm is able to expand.
    - c. The firm is able to build brand loyalty.
    - d. The firm is able to sell fewer products.
    - e. All of these are benefits to the firm.
- (Answers to these two questions can be found in the Quiz Yourself Answer Key section at the end of the chapter.)

## Chapter Case Study



## KIND BARS FOR A KINDER WORLD

Among the many energy and snack bars we have discussed, KIND ([www.kindsnacks.com](http://www.kindsnacks.com)) stands out for its largely successful efforts to apply nearly every aspect of good marketing presented in this chapter. Its products offer substantial value by satisfying modern consumers' needs and wants through an exchange. Its promotions are unique and compelling, and it has established its place on store shelves and through mobile channels. Furthermore, the company embraces a conscious marketing perspective, while also using its customer data to develop new innovations and promotions.

Consider, to start, how KIND provides product solutions to satisfy customers. As a central corporate ethic, it asserts that people should not be forced to eat any ingredient that they cannot pronounce. It excludes artificial sweeteners and preservatives, so for modern consumers who embrace a healthy lifestyle, it markets a product that they can trust to contain only “natural” ingredients.<sup>36</sup>

As it has learned more about what consumers want, it also has expanded its product offerings. Beyond its initial snack bars, KIND now markets fruit snacks and protein bars. For these selections, its marketing remains consistent, promising more natural alternatives to conventional versions of these items.<sup>37</sup> The fruit snacks, which are vastly popular among children, contain no added sugars, preservatives, or genetically engineered ingredients, for example.

To introduce such products to the market, KIND embraces diverse and clever promotional tools as well. To tout its fruit snacks, it installed a three-story-high mountain made up of 45,485 pounds of sugar in Times Square, along with statues of children made out of sugar. The mountain represented the added sugar that U.S. children consume every five minutes; each statue consisted of 64 pounds of sugar, or the average amount that an eight-year-old child consumes each year.<sup>38</sup>

To get people to try its new protein bar, KIND took a different tack because its target audience was different. Its extensive analysis of market data showed KIND that when people considered buying a protein bar or thought about switching brands, they often searched for phrases like “best tasting protein bar” or “protein bars that aren't gross.”<sup>39</sup> So it developed a product based primarily on nuts, which it argues will always and inherently taste better than synthetic or processed food blends. Then it undertook a promotion designed primarily to get people to try its new product: It offered the first 10,000 visitors to its website who requested one a free KIND protein bar—as well as a bar from a competing company of their choice.<sup>40</sup> Thus the consumers received both a KIND Bar and, for example, a Clif Bar, and the company encouraged them to evaluate both options and post their reviews.

But the online channel represents just one of the places that KIND has leveraged to market its protein bars. Soon after its online promotion, it hosted taste test events in various big



*To tout its healthy fruit snacks, Kind installed a three-story-high mountain made up of 45,485 pounds of sugar in Times Square, along with statues of children made out of sugar. The mountain represented the added sugar that U.S. children consume every five minutes; each statue consisted of 64 pounds of sugar, or the average amount that an eight-year-old child consumes each year.*

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cities across the United States, in which it similarly handed out samples of both its own and its competitors' offerings. It described the promotion not as a way to sell more products, but rather as a route to help consumers learn about a better-tasting bar.

Such espoused interest in consumers' best outcomes is prominent throughout KIND's marketing, which consciously embraces the company's goal and responsibility to "make the world a little kinder."<sup>41</sup> It defines kindness (and thus its brand) as more active than simply being nice. To manifest this initiative, it supports various causes. The KIND Foundation granted awards worth approximately \$1.1 million to seven people who acted in ways to improve their communities. The company's CEO wrote a book, *Do the KIND Thing*, and all proceeds from the sales of that text are donated to kindness initiatives.<sup>42</sup> The company also prints and issues #kindawesome cards, which it delegates its employees to hand out to random people they find engaging in kind action. The recipients receive special codes on the cards that allow them discounts on KIND products.

These are not the only tactics it uses, though. First-time visitors to its website encounter a button they can click, inviting them to receive a discount on their first offer. In exchange for the price cut, they simply need to fill in their e-mail address—which of course means that KIND has gathered that information and can use it to track its sales and consumer preferences better, so that it can develop additional new products to meet those consumers' needs and wants.

And thus it comes full circle. By exemplifying nearly all the elements of marketing that this chapter describes, KIND is achieving success in a market that continues to grow, in competition with other brands that seek to establish their own positions in the marketplace.

### Questions

1. Describe the target market for KIND bars? In your discussion explain:
  - What types of people does KIND sell to?
  - How does KIND appeal to those different groups of people?
2. Outline KIND's four Ps.
3. Does KIND act in a socially responsible manner? Explain your answer.

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## Quiz Yourself Answer Key

1. Which of the following is *not* a function of marketing's value creation process?  
Answer: (e) All of these are part of marketing's value creation process.
2. Value creation is the central activity of marketing. Which is not a benefit to the firm from engaging in value creation and the ongoing process of identifying value-adding options for consumers?  
Answer: (d) The firm is able to sell fewer products.



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## LEARNING OBJECTIVES

After reading this chapter, you should be able to:

- L02-1 Define a marketing strategy.
- L02-2 Describe the elements of a marketing plan.
- L02-3 Analyze a marketing situation using SWOT analyses.
- L02-4 Describe how a firm chooses which consumer group(s) to pursue with its marketing efforts.
- L02-5 Outline the implementation of the marketing mix as a means to increase customer value.
- L02-6 Summarize portfolio analysis and its use to evaluate marketing performance.
- L02-7 Describe how firms grow their business.



## CHAPTER 2

# DEVELOPING MARKETING STRATEGIES AND A MARKETING PLAN



The corporate name of the company that produces and sells popular food and beverage brands such as Gatorade, Frito-Lay, Tropicana, Quaker, and Mountain Dew—PepsiCo—signals which of the products in its portfolio have been the most important historically. The company began by selling carbonated beverages, but today it earns most of its revenues and enjoys most of its growth in snack, not drink, categories.

This development reflects PepsiCo's careful analysis of the market and efforts to ensure that it continues to attract a wide range of consumers by offering many types of products. Noting consumer trends, such as increasing interest in healthy options, demands for more variety in flavors, and growing globalization in consumption, the U.S.-based company has sought to leverage its expertise to get its products into the hands of consumers. It also continues to innovate and expand in its efforts to circumvent competition and hold on to its market share.

For example, finding opportunity in the growing groups of consumers who search for healthy options,

even when they are consuming usually guilt-inducing snacks, PepsiCo offers a “guilt-free” group of products, spanning baked potato chips, lower-sodium tortillas, and chips made of beans.<sup>1</sup> Going beyond product innovations, the company also pursues value through novel packaging, such as smaller packages that help consumers limit their calorie or sodium consumption.<sup>2</sup> In these efforts, it seeks to provide unique and appealing “platforms” for snackers who might be interested in virtually any type of tasty treat, from salty chips to hearty crackers to spicy Cheetos to chocolate-covered granola bars.

Such versatility and diversity represent key strengths of the broad corporate brand. It counts approximately 3,000 different flavor profiles among its intellectual property, which it refers to as its “flavor bank.” These valuable resources enable PepsiCo to introduce unique, distinctive flavors for its Lay's potato chips, from Everything Bagel with Cream Cheese in the U.S. market to Salmon Teriyaki in Asian markets. To enhance the benefits of such resources, it also leverages these strengths in marketing



efforts that get people talking, such as its highly popular annual “Do Us a Flavor” contest that encourages fans to pick their favorite flavors among the unusual options that PepsiCo comes up with that year.<sup>3</sup>

Of course, it is not the only company seeking to appeal to such consumers. Carbonated beverages remain an important part of the company’s product portfolio, and in these segments, Coca-Cola and Dr Pepper Snapple are actively in pursuit of more market share. All three corporations have increased their juice and sports drink offerings, especially as sales of carbonated beverages continue their downward trend.

Such threats are an inherent aspect of the highly competitive food and beverage market, where companies also confront rising costs.<sup>4</sup> Overall, modern consumer goods and grocery retailing scenarios are challenging. As PepsiCo’s chair and chief executive officer Indra Nooyi recently acknowledged, “Over my several decades in business I have never seen this combination of sustained headwinds across most economies, combined with high volatility across global financial markets.”<sup>5</sup>

PepsiCo also has struggled with some formulations, such as the use of aspartame in Diet Pepsi. Studies suggesting its harmful effects led consumers to call for its removal from the recipe. But when PepsiCo did so, fans also complained about the taste of the reformulated version. In response, it now maintains several diet colas, in an attempt to appeal to multiple audiences.<sup>6</sup> Another

weakness stems from its long-standing image as a company that produces less-than-healthy snack options. As it has tried to expand its organic offerings, it has met with some resistance. Although sales in this sector finally are starting to increase, it has had to adjust its growth projections downward when those sales did not expand fast enough to keep shareholders happy.<sup>7</sup>

All these factors are reinforced and intensified by PepsiCo’s international presence in more than 200 countries. In these various national markets, it leverages its massive “flavor bank” to appeal to consumers who might prefer Yorkshire Pudding or Tikka Masala, rather than salt and vinegar, when they chow down on some potato chips. It also enjoys the power of recognizable brand names and the ability to deliver its products throughout the world. However, even as the company has noted productivity gains in many international markets, it also has admitted that unfavorable currency exchanges and wider macroeconomic factors have led to reduced profits in international markets.<sup>8</sup>

In the face of these challenges and promises, PepsiCo maintains a highly positive outlook. Its guiding philosophy, whether it is developing new products or expanding into new markets, looks for the bright side while attempting to mitigate any dark sides. As the company’s principal scientist Elizabeth Roark explained, in reference to healthy snack innovations, “We’re really looking to not only decrease the negatives but also increase the positives and transform our portfolio in a positive direction.”<sup>9</sup>

**L02-1** Define a marketing strategy.

## WHAT IS A MARKETING STRATEGY?

A **marketing strategy** identifies (1) a firm’s target market(s), (2) a related marketing mix (its four Ps), and (3) the bases on which the firm plans to build a sustainable competitive advantage. A **sustainable competitive advantage** is an advantage over the competition that is not easily copied and can be maintained over a long period of time. A competitive advantage acts like a wall that the firm has built around its position in a market. This wall makes it hard for outside competitors to contact customers inside—otherwise known as the marketer’s target market. Of course, if the marketer has built a wall around an attractive market, competitors will attempt to break down the wall. Over time, advantages will erode because of these competitive forces, but by building high, thick walls, marketers can sustain their advantage, minimize competitive pressure, and boost profits for a longer time. Thus, establishing a sustainable competitive advantage is key to long-term financial performance.

For Pepsi, this wall involves the bricks of a strong brand and a loyal customer base, which were built on the foundation of its strong innovative capabilities. Customers around the world know Pepsi and consider it a primary “go-to” brand if they want a refreshing drink. This positioning reflects Pepsi’s careful targeting and marketing mix implementation.

In terms of the four Ps (as we described them in Chapter 1), Pepsi already has achieved *product* excellence with its signature colas, Pepsi and Diet Pepsi. It also is constantly adding new products to its product line, like Caleb's Kola, which features African Kola nuts, cane sugar, and unique spices, along with a slight citrus flavor. The drink is named after Caleb Bradham, the pharmacist who first started selling "Brad's Drink" in 1893 in his North Carolina drugstore.<sup>10</sup> Furthermore, the Pepsi brand is owned by a parent company, PepsiCo, that also owns many of the top snack brands; other cola lines; and additional beverage products such as Lay's, Quaker, Mountain Dew, and Naked—among dozens of others.<sup>11</sup> To market its products, it relies on an extensive distribution network that *places* its familiar and appealing brands in stores in more than 200 countries.<sup>12</sup> Its pricing also is competitive and strategic. For example, customers can readily access a quick drink from a Pepsi soda fountain at a higher price by volume, or they can pay a little less per liter and buy larger, two-liter bottles to store and consume at home. Central to its promotion efforts are Pepsi's celebrity endorsements. Pepsi partners with some of the world's biggest musicians, including Katy Perry, Beyoncé, and Elton John,<sup>13</sup> and sponsors major sports events and leagues, such as the Super Bowl, as well as the NBA and WNBA, NHL, and NFL.<sup>14</sup> Also, to enable up-and-coming artists to more easily reach their fans, Pepsi sponsors its "Sound Drop" music platform that partners with MTV, Shazam, and iHeartMedia.<sup>15</sup>

There are four macro, or overarching, strategies that focus on aspects of the marketing mix to create and deliver value and to develop sustainable competitive advantages, as we depict in Exhibit 2.1:<sup>16</sup>

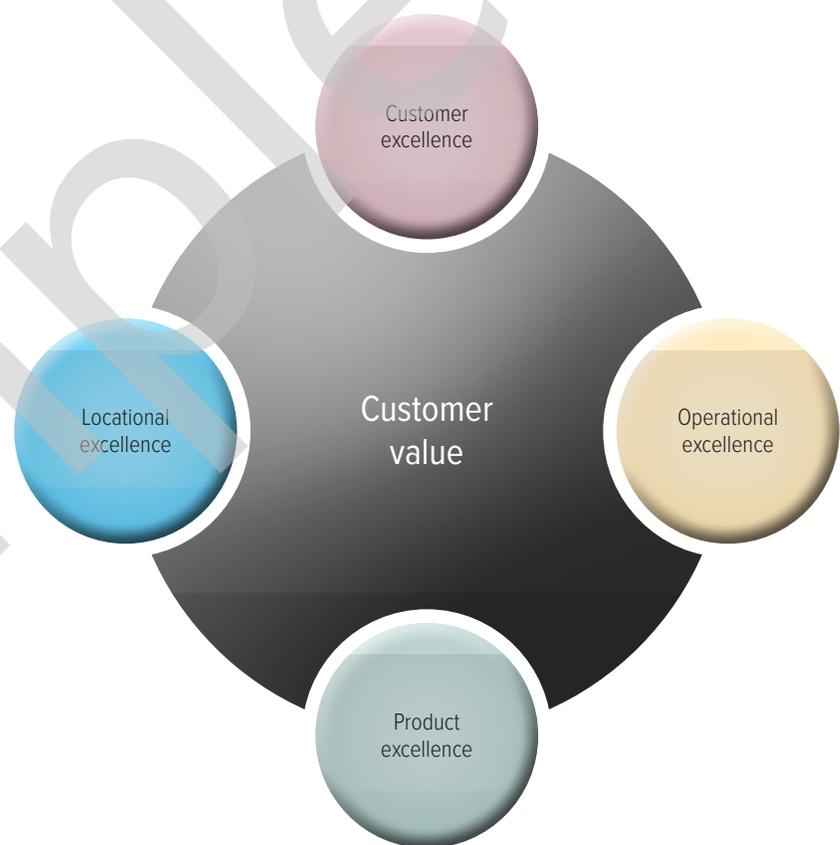
- **Customer excellence:** Focuses on retaining loyal customers and excellent customer service.
- **Operational excellence:** Achieved through efficient operations and excellent supply chain and human resource management.
- **Product excellence:** Having products with high perceived value and effective branding and positioning.
- **Locational excellence:** Having a good physical location and Internet presence.

## Customer Excellence

**Customer excellence** is achieved when a firm develops value-based strategies for retaining loyal customers and provides outstanding customer service.

**Retaining Loyal Customers** Sometimes the methods a firm uses to maintain a sustainable competitive advantage help attract and maintain loyal customers. For instance, having a strong brand, unique merchandise, and superior customer service all help solidify a loyal

### EXHIBIT 2.1 Macro Strategies for Developing Customer Value



customer base. In addition, having loyal customers is, in and of itself, an important method of sustaining an advantage over competitors.

Loyalty is more than simply preferring to purchase from one firm instead of another.<sup>17</sup> It means that customers are reluctant to patronize competitive firms. Loyal customers drink Pepsi even if Coca-Cola goes on sale. More and more firms realize the value of achieving customer excellence by focusing their strategy on retaining loyal customers. PepsiCo doesn't think in terms of selling a single case of Mountain Dew for \$15; instead, it focuses on satisfying customers who buy various bottles or cans to keep in their homes all the time, including Mountain Dew for the kids, Diet Pepsi for the adults, and Pepsi for guests. It also considers whether those consumers might want some salty snacks to go with their beverages and how it can help them combine those desires through the purchase of multiple PepsiCo products. Even if we just consider cola purchases, it is reasonable to imagine that a household of cola consumers might buy 50 cases of carbonated beverages every year for something like 20 years. In this case, the consumer is not a \$15 customer who bought a single case; by combining all purchases for the family over the years, we determine that this household represents a \$15,000 customer! Viewing customers with a lifetime value perspective rather than on a transaction-by-transaction basis is key to modern customer retention programs.<sup>18</sup> We will examine how the lifetime value of a customer is calculated in Chapter 10.

Another method of achieving customer loyalty creates an emotional attachment through loyalty programs. These loyalty programs, which constitute part of an overall customer relationship management (CRM) program, prevail in many industries, from airlines to hotels to movie theaters to retail stores. With such programs, firms can identify members through the loyalty card or membership information the consumer provides when he or she makes a purchase. Using that purchase information, analysts determine which types of merchandise certain groups of customers are buying and thereby tailor their offering to better meet the needs of their loyal customers. For instance, by analyzing their databases, banks develop profiles of customers who have defected in the past and use that information to identify customers who may defect in the future. Once it identifies these customers, the firm can implement special retention programs to keep them.

**Providing Outstanding Customer Service** Marketers also may build sustainable competitive advantage by offering excellent customer service,<sup>19</sup> though consistency in this area can prove difficult. Customer service is provided by employees, and, invariably, humans are less consistent than machines. Firms that offer good customer service must instill its importance in their employees over a long period of time so that it becomes part of the organizational culture.

Disney offers excellent examples of both of these types of customer excellence. First, Disney's My Magic system enables visitors to swipe their MagicBand wristbands to get on rides, make purchases, and open their hotel room door. They can also use the mobile app to get dinner reservations or check in for rides throughout the park and its grounds. The system also enables Disney to collect a remarkable amount of information about what each guest is doing at virtually every moment of his or her visit to its theme parks.<sup>20</sup>

Second, its customer service is virtually unparalleled. Visitors to Disney parks are greeted by "assertively friendly" staff who have been extensively trained to find ways to communicate positively with customers and provide better service. The training includes information about how to recognize the signs that a visitor is lost, so the Disney employee can offer help locating a destination. It also highlights the need to communicate

*Disney's My Magic system enables users to swipe their MagicBand wristbands to get on rides, make purchases, and open their hotel room door.*

©parrysuwanitch/123RF



frequently and collaboratively about every aspect of the park, so a custodian at one end of the Magic Kingdom likely knows what time a restaurant on the other side opens.<sup>21</sup>

Although it may take considerable time and effort to build such a reputation for customer service, once a marketer has earned a good service reputation, it can sustain this advantage for a long time because a competitor is hard-pressed to develop a comparable reputation. Adding Value 2.1 details how Sally Beauty's loyalty program helps retain loyal customers.



## Adding Value 2.1 Beautiful Loyalty: Sally Beauty's Updated Loyalty Program<sup>1</sup>

For the loyalty program at Sally Beauty, everything starts with an e-mail address. It may end with consistent customer engagement, sophisticated data analysis, and increased sales, but the first step in the process is ensuring that it can reach customers directly and effectively.

Therefore, when customers enter one of the retailer's 3,000 stores or visit its online sites, they receive an invitation to purchase a \$5 membership into the program, with the promise that they will receive a \$5 coupon via e-mail. Thus, the company learns customers' e-mail addresses immediately, enabling it to share information about itself that might engage these shoppers on a more emotional level.

Such tactics represent the retailer's attempt to counteract some downward sales trends and move beyond price promotions, to compel more engagement and loyalty from shoppers. In addition to restructuring the company to find some cost efficiencies, it hopes to rely more on loyalty, and less on one-time discounts, to keep shoppers coming back to its stores. Instead, it promises 15 percent discounts for the rest of the month, as long as the consumer spends at least \$25 in that month.

Then, with the data it gathers, it takes a careful look at what the customer buys. As an example, the company's chief marketing officer (CMO) notes that if a customer purchases hair dye, that person is likely going to need color-safe conditioner, perhaps a touch-up tool, and then another box of dye in about six weeks. Therefore, Sally Beauty times special offers and incentives accordingly, sending e-mail messages and coupons at just the moment the customer is likely to be looking to purchase those items. It plans to add targeted advertising too, such that a banner advertisement that pops up when a loyal customer accesses the website would feature a model whose hair color matches the color that the customer bought most recently.

Beyond such immediate information, Sally Beauty works to leverage the data it gathers from its loyalty program to design new offerings that will appeal to the demographics and preferences exhibited by its loyal customers. In the CMO's own words, "We're at a place where everything is driven by the customer and driven by data."

FREE SHIPPING ON ANY \$25 PURCHASE    FIND A STORE    PRO FLYER    LOYALTY CARDS    LOGIN | REGISTER

**SALLY BEAUTY**    Search    0

HAIR    NAILS    MAKEUP    SKINCARE & BODY    GIFTS & ACCESSORIES    SALON PROFESSIONAL & EQUIPMENT    SALE & CLEARANCE

DEALS & COUPONS    SHOP BRANDS

Home / Sally Beauty Cards

beauty CLUB    PRO MEMBER    BEAUTY SAVINGS    SALLY BEAUTY

BEAUTY CLUB    PRO MEMBER    BEAUTY STUDENT

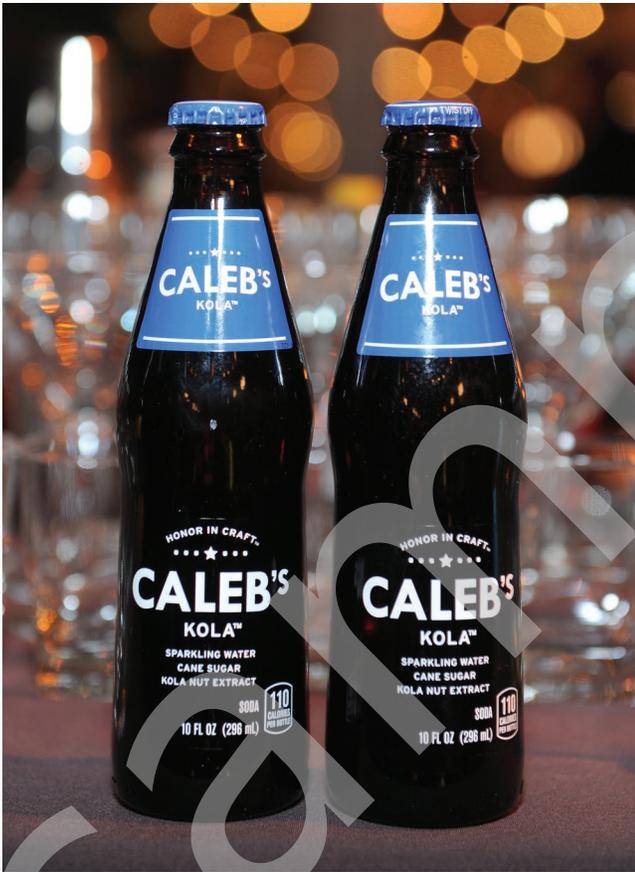
**LOG IN TO SEE YOUR BEAUTY CLUB PRICE**

OR SIGN UP AT YOUR SALLY STORE

beauty CLUB MEMBER    SALLY BEAUTY

*Sally Beauty works hard at obtaining and keeping loyal customers by providing outstanding customer service.*

*Source: Sally Beauty Supply LLC*



©Craig Barritt/Getty Images

## Operational Excellence

Firms achieve **operational excellence**, the second way to achieve a sustainable competitive advantage, through efficient operations, excellent supply chain management, and strong relationships with suppliers.

All marketers strive for efficient operations to get their customers the merchandise they want, when they want it, in the required quantities, and at a delivered cost that is lower than that of their competitors. By so doing, they ensure good value to their customers, earn profitability for themselves, and satisfy their customers' needs.

Firms achieve efficiencies by developing sophisticated distribution and information systems as well as strong relationships with vendors. Like customer relationships, vendor relations must be developed over the long term and generally cannot be easily offset by a competitor.<sup>22</sup>

You are likely aware of, and perhaps have taken advantage of, Amazon's Prime shipping program that offers, for \$99 a year, free two-day shipping on all orders. Perhaps you have paid for overnight delivery with Amazon, or if you live in 1 of the 11 cities in the United States that offer it, you may have paid for same-day shipping. With attractive shipping options like these, how are other online retailers able to compete? Operational excellence is required for Amazon to execute this program effectively. Not only does it need to have the technology to coordinate the personal buyers, but it needs to have an effective human resource hiring program that selects and trains employees capable of going the extra mile to please its customers.<sup>23</sup>

## Product Excellence

**Product excellence**, the third way to achieve a sustainable competitive advantage, occurs by providing products with high perceived value and effective branding and positioning. Some firms have difficulty developing a competitive advantage through their merchandise and service offerings, especially if competitors can deliver similar products or services easily. However, others have been able to maintain their sustainable competitive advantage by investing in their brand itself; positioning their product or service using a clear, distinctive brand image; and constantly reinforcing that image through their merchandise, service, and

IBM is one of Bloomberg Businessweek's top global brands.

©drserg/Shutterstock



promotion. For example, with its new product introductions, such as Caleb's Kola,<sup>24</sup> the company clearly is seeking to reinforce and emphasize its historical legacy and image as a provider of excellent, refreshing, distinctive beverages. Top global brands—such as Apple, Google, Microsoft, Coca-Cola, Amazon, Samsung, Toyota, Facebook, Mercedes, and IBM—are all leaders in their respective industries, at least in part because they have strong brands and a clear position in the marketplace.<sup>25</sup>

## Locational Excellence

**Locational excellence** is particularly important for retailers and service providers. Many say, "The three most important things in retailing are location, location, location." For example, most people

will not walk or drive very far when looking to buy a cup of coffee. A competitive advantage based on location is sustainable because it is not easily duplicated. Starbucks has developed a strong competitive advantage with its location selection. The high density of stores it has established in some markets makes it very difficult for a competitor to enter that market and find good locations. After all, if Starbucks has a store on the corner of a busy intersection, no other competitor can take that location and will instead have to settle for a less worthy spot.

## Multiple Sources of Advantage

In most cases, a single strategy, such as low prices or excellent service, is not sufficient to build a sustainable competitive advantage. Firms require multiple approaches to build a “wall” around their position that stands as high as possible.

Southwest Airlines consistently has positioned itself as a carrier that provides good service at a good value—customers get to their destinations on time for a reasonable price without having to pay extra for checked luggage. At the same time, its customers know not to have extraordinary expectations, unlike those they might develop when they purchase a ticket from Singapore Airlines. They don’t expect food service or seat assignments. But they do expect—and even more important, get—on-time flights that are reasonably priced. By developing its unique capabilities in several areas, Southwest has built a very high wall around its position as the premier value player in the airline industry, which has resulted in a huge cadre of loyal customers.

### PROGRESS CHECK

1. What are the various components of a marketing strategy?
2. List the four macro strategies that can help a firm develop a sustainable competitive advantage.



## THE MARKETING PLAN

Effective marketing doesn’t just happen. Firms like Pepsi carefully plan their marketing strategies to react to changes in the environment, the competition, and their customers by creating a marketing plan. A **marketing plan** is a written document composed of an analysis of the current marketing situation, opportunities and threats for the firm, marketing objectives and strategy specified in terms of the four Ps, action programs, and projected or pro forma income (and other financial) statements.<sup>26</sup> The three major phases of the marketing plan are planning, implementation, and control.<sup>27</sup>

Although most people do not have a written plan that outlines what they are planning to accomplish in the next year, and how they expect to do it, firms do need such a document. It is important that everyone involved in implementing the plan knows what the overall objectives for the firm are and how they are going to be met. Other stakeholders, such as investors and potential investors, also want to know what the firm plans to do. A written marketing plan provides a reference point for evaluating whether or not the firm has met its objectives.

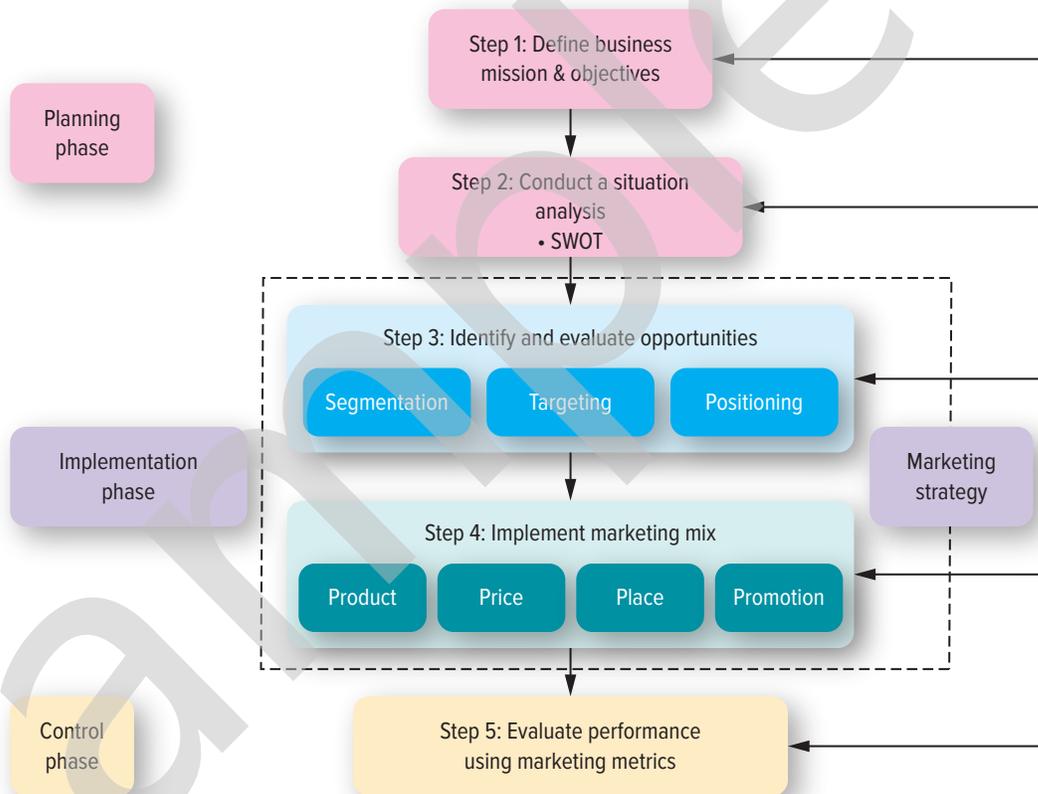
A marketing plan entails five steps, depicted in Exhibit 2.2. In Step 1 of the **planning phase**, marketing executives, in conjunction with other top managers, define the mission and/or vision of the business. For the second step, they evaluate the situation by assessing how various players, both in and outside the organization, affect the firm’s potential for success. In the **implementation phase**, marketing managers identify and evaluate different opportunities by engaging in a process known as segmentation, targeting, and positioning (STP) (Step 3). They then are responsible for implementing the marketing mix using the four Ps (Step 4). Finally, the **control phase** entails evaluating the performance of the marketing strategy using marketing metrics and taking any necessary corrective actions (Step 5).

As indicated in Exhibit 2.2, it is not always necessary to go through the entire process for every evaluation (Step 5). For instance, a firm could evaluate its performance in Step 5, then go directly to Step 2 to conduct a situation analysis without redefining its overall mission.

L02-2

Describe the elements of a marketing plan.

## EXHIBIT 2.2 The Marketing Plan



We first discuss each step involved in developing a marketing plan. Then we consider ways of analyzing a marketing situation, as well as identifying and evaluating marketing opportunities. We also examine some specific strategies marketers use to grow a business. Finally, we consider how the implementation of the marketing mix increases customer value.

### Step 1: Define the Business Mission

The **mission statement**, a broad description of a firm's objectives and the scope of activities it plans to undertake,<sup>28</sup> attempts to answer two main questions: What type of business are we? What do we need to do to accomplish our goals and objectives? These fundamental business questions must be answered at the highest corporate levels before marketing

*PepsiCo's mission statement emphasizes the global nature of its products, whereas Coke's evokes emotions like happiness.*

*(Left): ©Bloomberg/Getty Images; (right): Source: The Coca-Cola Company*



executives can get involved. Most firms want to maximize stockholders' wealth by increasing the value of the firms' stock and paying dividends.<sup>29</sup> Let's look at the two very different mission statements of PepsiCo and Coca-Cola:

- **PepsiCo's Mission Statement:** "To provide consumers around the world with delicious, affordable, convenient and complementary foods and beverages from wholesome breakfasts to healthy and fun daytime snacks and beverages to evening treats."<sup>30</sup>
- **Coke's Mission Statement:** "To refresh the world. . . . To inspire moments of optimism and happiness. . . . To create value and make a difference."<sup>31</sup>

For both of these firms, marketing is primarily responsible for enhancing the value of the company's offering for its customers and other constituents, whether in pursuit of a profit or not. Another key goal or objective often embedded in a mission statement relates to how the firm is building its sustainable competitive advantage.

However, owners of small, privately held firms frequently have other objectives, such as achieving a specific level of income and avoiding risks. Nonprofit organizations such as the "Pink Ribbon" campaign instead have nonmonetary objectives:

- **Pink Ribbon International's Mission Statement:** "Pink Ribbon is organized exclusively for charitable, educational and scientific purposes. We provide information, resources and support. We promote research into the causes, prevention, treatment and a possible cure."<sup>32</sup>

## Step 2: Conduct a Situation Analysis

After developing its mission, a firm would perform a **situation analysis** using a **SWOT analysis** that assesses both the internal environment with regard to its Strengths and Weaknesses and the external environment in terms of its Opportunities and Threats. In addition, it should assess the opportunities and uncertainties of the marketplace due to changes in Cultural, Demographic, Social, Technological, Economic, and Political forces (CDSTEP). These factors are discussed in more detail in Chapter 5. With this information, firms can anticipate and interpret change, so they can allocate appropriate resources.



*Pink Ribbon is a nonprofit organization that supports breast cancer patients, survivors, and their families.*

©Steve Thorne/Getty Images

L02-3

Analyze a marketing situation using SWOT analyses.



*One of PepsiCo's strengths is its portfolio of celebrity endorsers such as Beyoncé (left) and David Beckham (right).*

(Left): ©WENN US/Alamy Stock Photo; (right): ©Clive Brunskill/Getty Images

**EXHIBIT 2.3** Examples of Elements in a SWOT Analysis

		Environment	
		Positive	Negative
<b>Pepsi</b>	<b>Internal</b>	<b>Strengths</b> Brand product portfolio Strong celebrity endorsers Many products are complementary to each other Dedication to charitable and social projects Large marketing budget	<b>Weakness</b> Relies heavily on Walmart Relatively lower brand awareness Public scrutiny over practices Low profit margins
	<b>External</b>	<b>Opportunity</b> Health food segments Expansions due to acquisitions Ready-to-drink tea and coffee market growth Bottled water	<b>Threats</b> Water scarcity Changes to labeling regulations Increasing exchange rate of U.S. dollar Health concerns may reduce product demands
<b>Coca-Cola</b>	<b>Internal</b>	<b>Strengths</b> High market share Strong brand Strong global presence Excellent customer loyalty Supply chain	<b>Weakness</b> Low diversification Few healthy beverages
	<b>External</b>	<b>Opportunity</b> Emerging countries Diversifying products Bottled water	<b>Threats</b> Water scarcity Potential market saturation Changes to labeling regulations Increasing competitors

Sources: SWOT analysis of Pepsi, Strategic Management Insight, March 16, 2016, [www.strategicmanagementinsight.com/swot-analyses/pepsico-swot-analysis.html](http://www.strategicmanagementinsight.com/swot-analyses/pepsico-swot-analysis.html); Hitesh Bhasin, "SWOT of Cola Cola," Marketing91, November 21, 2017, [www.marketing91.com/swot-coca-cola/](http://www.marketing91.com/swot-coca-cola/).

Consider how PepsiCo might conduct a SWOT analysis, as outlined in Exhibit 2.3. We focus on PepsiCo here, but we also recognize that its marketing managers might find it helpful to perform parallel analyses for competitors, such as Coca-Cola.

A company's strengths (Exhibit 2.3, upper left) refer to the positive internal attributes of the firm. In this example, the strengths we might identify include PepsiCo's diversified product portfolio and celebrity endorsements. Pepsi has signed some of the world's most recognized musicians and athletes as spokespersons, from Beyoncé to Michael Jordan and David Beckham.<sup>33</sup> Building on this forte, it launched its own music program, Out of the Blue, that debuted during a Grammy Awards ceremony. The program aimed to connect fans with their favorite artists by giving away extravagant trips to major music festivals, concerts, and other fabulous experiences.<sup>34</sup> Another strength comes from its efforts to benefit society, such as the PepsiCo Foundation's Global Citizenship Initiatives, which encourage healthy lifestyles, clean water, and waste reduction, among other positive goals.<sup>35</sup>

Yet every firm has its weaknesses, and PepsiCo is no exception. Weaknesses (Exhibit 2.3, upper right) are negative attributes of the firm. Furthermore, PepsiCo has much



One of PepsiCo's Global Citizenship Initiatives is its S.M.A.R.T. program that identifies which Pepsi/Frito-Lay products are healthier. S.M.A.R.T. stands for five steps that encourage active living and better food choices: Start with a healthy breakfast; Move more; Add more fruits, vegetables, and whole grains; Remember to hydrate; and Try lower-calorie or lower-fat foods.

©Kayte Deioma/Zumapress/Newscom

lower global brand awareness and market share than does its main rival, Coca-Cola.<sup>36</sup> Also, PepsiCo's Aquafina water brand relies on a public water source. It has faced public criticism and negative press that jeopardizes its market position and has had to acknowledge that Aquafina is simply tap water in a bottle.<sup>37</sup>

Opportunities (Exhibit 2.3, lower left) pertain to positive aspects of the external environment. Among PepsiCo's opportunities is the rising demand for healthy food and drink options, as we indicated in the opening vignette. That is, the increasing interest in healthier options gives PepsiCo new opportunities to expand its product lines, introduce innovative new colas that appeal to people's preferences for premium options, and offer healthier options as well. For example, even with the public sourcing controversy, PepsiCo's bottled water brand, Aquafina, and its other health options have seen significant growth.<sup>38</sup> Another notable opportunity for PepsiCo is the growth in global markets for snacks and beverages. In particular, it has invested strongly in Brazil, India, and China, as well as in sub-Saharan Africa.<sup>39</sup> If these efforts are successful, PepsiCo can enjoy substantial growth while also reducing its nearly exclusive reliance on the U.S. market. There are multiple ways to take advantage of opportunities, though; Adding Value 2.2 describes how Coca-Cola is taking another approach to address the external environment and provide value to its customers.



## Adding Value 2.2

### Small Coke Cans: Are Consumers Paying More for Less, or Are They Just Paying to Get What They Want?<sup>ii</sup>

When Coca-Cola checked its sales data recently, it found consistently over the past few quarters that sales of smaller containers, such as 7.5-ounce cans, were growing fast, while traditional packages kept suffering stagnant or even decreasing sales. The evidence has prompted the beverage company to revisit its approach, such that its goal is not just to sell Coke but rather to sell Cokes.

What's the difference? Consumer trends have led more people to request and purchase small containers of cola, so that they can limit their intake and achieve healthier lifestyles. In particular, parents wanted the smaller containers so that they could allow their children to have a treat without loading them up with more sugar and caffeine than would be good for the kids. Therefore, they sought to be able to buy a 12-pack of small cans or bottles rather than a 6-pack of the traditional 12-ounce packages. The volume of actual beverages being purchased might not change, or even might decline. But the number of packages being bought increases. As a result, approximately 14 percent of Coca-Cola's product mix now consists of the small servings—a move that also reflects the company's effort to live up to its pledge to reduce the number of calories people consume through carbonated beverages. As the president of Coca-Cola North America explained, "Having a 20 oz. bottle of Coca-Cola is pointless if half of it is never consumed."

In addition to revising its perspective on what customers actually want, Coke has reinvented its pricing approach. It enjoys a beneficial new price platform due to the switch. The cost to consumers for the small cans is approximately the same as that for the larger packages, meaning that shoppers pay approximately the same amount of money for substantially less product. But for the most part, shoppers appear willing to do so because the smaller packaging meets their needs and represents a clear response to their requests. The 17 percent sales growth in the small-size categories affirms this willingness.



*Consumers are demanding smaller containers of cola to limit their intake and achieve healthier lifestyles. So, Coke provides the smaller cans on the right.*

*©Matt Rourke/AP Images*

As a result of "more people, enjoying more Coke, more often, for a little more money," Coca-Cola also has increased its revenues, despite decreased volume sales. Customer research showed that consumers often equate finishing a drink with their sense of refreshment. Leaving customers wanting more, by giving them smaller containers, thereby helps encourage repurchase and consumption intentions while still making those consumers feel happier and more refreshed. The threat of cannibalization certainly remains pertinent, such that the sales growth in small packages might only come at the cost of lost sales of larger ones; yet the company appears confident that it is on the right path, ready to offer the "perfect pour" of carbonation.

Finally, threats (Exhibit 2.3, lower right) represent the negative aspects of the company's external environment. Water scarcity is a significant concern because the production of cola demands substantial amounts of water.<sup>40</sup> In addition, increased attention to labeling and nutrition facts could threaten to undermine PepsiCo's appeal.<sup>41</sup> Finally, competition in the snack-food market continues to increase, not just among the existing members of the market but also by new entrants that are coming up with innovative, alternative snacks to appeal to consumers' specific preferences.<sup>42</sup> These are just some of the threats that PepsiCo is facing.

L02-4

Describe how a firm chooses which consumer group(s) to pursue with its marketing efforts.

### Step 3: Identify and Evaluate Opportunities Using STP (Segmentation, Targeting, and Positioning)

After completing the situation analysis, the next step is to identify and evaluate opportunities for increasing sales and profits using **segmentation, targeting, and positioning (STP)**. With STP, the firm first divides the marketplace into subgroups or segments, determines which of those segments it should pursue or target, and finally decides how it should position its products and services to best meet the needs of those chosen targets (more details on the STP process can be found in Chapter 9).

**Segmentation** Many types of customers appear in any market, and most firms cannot satisfy everyone's needs. For instance, among Internet users some do research online, some shop, some look for entertainment, and many do all three. Each of these groups might be a **market segment** consisting of consumers who respond similarly to a firm's marketing efforts. The process of dividing the market into groups of customers with different needs, wants, or characteristics—who therefore might appreciate products or services geared especially for them—is called **market segmentation**.

**Jeepers. Reserve a Wrangler from Hertz.**

Turn your vacation into an adventure with the Jeep Wrangler or another vehicle from the Hertz Fun Collection! With selections like the Jeep Wrangler, Ford Mustang or the Corvette, you will find the perfect car for your vacation, because at Hertz, the car you reserve is the car you get. And with SIRIUS Satellite Radio equipped in every car, you'll have the tunes to match your vacation. To reserve a Jeep Wrangler or any of the vehicles included in the Hertz Fun Collection, call 1-800-654-3131, or visit [hertz.com](http://hertz.com). We have the cars that know how to have a good time. Let Hertz put you in the driver's seat!

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Mercedes-Benz **Hertz**

Hertz targets several markets. Its Adrenaline Collection (left) appeals to single people and couples wanting to have fun, while its Prestige Collection (right) appeals to its business customers and families who prefer a luxurious ride.

Source: The Hertz Corporation

**EXHIBIT 2.4** Hertz Market Segmentation Illustration

	Segment 1	Segment 2	Segment 3	Segment 4	Segment 5
<b>Segments</b>	Single thrill seekers and gear heads on vacation	Business customers and families who prefer a luxurious ride	Environmentally conscious customers	Families	Commercial customers
	Adrenaline Collection	Prestige Collection	Green Collection	SUV/Minivan/4x4	Commercial Van/Truck
<b>Cars Offered</b>	Corvette ZHZ Chevrolet Camaro	Infiniti QX56 Cadillac Escalade	Toyota Prius Ford Fusion	Toyota RAV4 Ford Explorer	Ford Cargo Van

Let's look at Hertz, the car rental company. The example in Exhibit 2.4 reveals some of the segments that Hertz targets. With the Adrenaline Collection, Hertz offers up the Chevrolet Camaro or Corvette to appeal to thrill seekers and gear heads on vacation. Its Prestige Collection features various Cadillac and Infiniti models, targeting business customers and families who prefer a luxurious ride. With its Green Collection of cars such as the Toyota Prius and Ford Fusion, and even some electric vehicle options in selected locations, Hertz appeals to environmentally conscious customers. It also offers commercial vans for service customers with its Commercial Van/Truck Collection.<sup>43</sup> Thus, Hertz uses a variety of demographics—gender, age, income, interests—to identify customers who might want the Prestige, Green, and Adrenaline Collections, but it also applies psychological or behavioral factors, such as a need to move possessions across town, to identify likely consumers of its commercial vans.

**Targeting** After a firm has identified the various market segments it might pursue, it evaluates each segment's attractiveness and decides which to pursue using a process known as **target marketing or targeting**. For example, Hertz realizes that its primary appeal for the SUV/Minivan/4x4 collection centers on young families, so the bulk of its marketing efforts for this business is directed toward that group.

Soft drink manufacturers also divide their massive markets into submarkets or segments. Coca-Cola, for instance, makes several different types of Coke, including regular, Coke II, and Cherry Coke. Among its diet colas, it targets Coke Zero Sugar to men and Diet Coke to women because men prefer not to be associated with diets. It also markets Sprite to those who don't like dark colas, Fruitopia and Minute Maid for more health-conscious consumers, and Dasani bottled water for purists.

**Positioning** Finally, when the firm decides which segments to pursue, it must determine how it wants to be positioned within those segments. **Market positioning** involves the process of defining the marketing mix variables so that target customers have a clear, distinctive, desirable understanding of what the product does or represents in comparison with competing products. Hertz positions itself as a quality car (and truck) rental company that is the first choice for each of its target segments. In its marketing communications, it stresses that customers will get peace of mind when they rent from Hertz, the market leader in the car rental business, and be able to enjoy their journey (e.g., leisure consumers) and reduce travel time (e.g., business consumers).<sup>44</sup>

To segment the coffee-drinker market, Starbucks uses a variety of methods, including geography (e.g., college campuses versus shopping/business districts) and benefits (e.g., drinkers of caffeinated versus decaffeinated products). After determining which of those segments represent effective targets, Starbucks positions itself as a firm that develops a variety of products that match the wants and needs of the different market segments—espresso drinks, coffees, teas, bottled drinks, pastries, and cooler foods.

After identifying its target segments, a firm must evaluate each of its strategic opportunities. A method of examining which segments to pursue is described in the Growth Strategies section later in the chapter. Firms typically are most successful when they focus on opportunities that build on their strengths relative to those of their competition. In Step 4 of the marketing plan, the firm implements its marketing mix and allocates resources to different products and services.

## L02-5

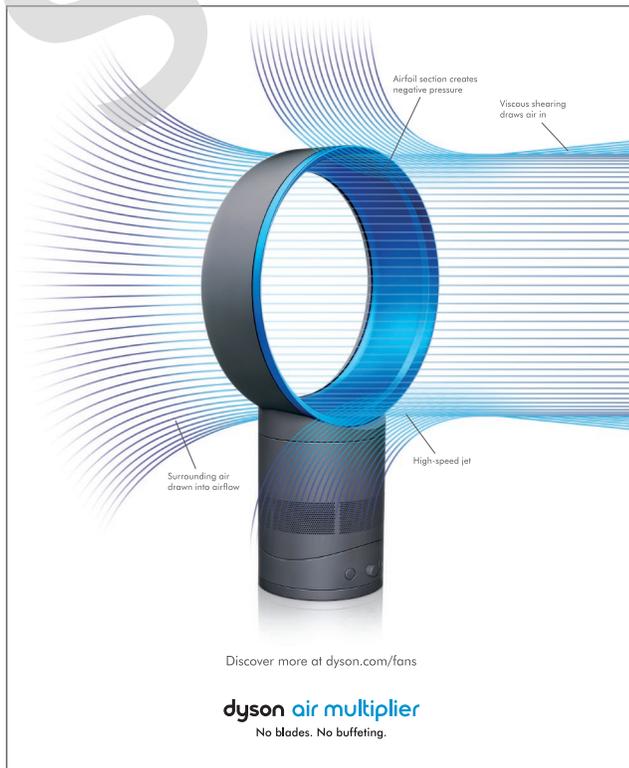
Outline the implementation of the marketing mix as a means to increase customer value.

## Step 4: Implement Marketing Mix and Allocate Resources

When the firm has identified and evaluated different growth opportunities by performing an STP analysis, the real action begins. It has decided what to do, how to do it, and how many resources should be allocated to it. In the fourth step of the planning process, marketers implement the actual marketing mix—product, price, place, and promotion—for each product and service on the basis of what they believe their target markets will value. At the same time, marketers make important decisions about how they will allocate their scarce resources to their various products and services.

**Product and Value Creation Products** These products include services and constitute the first of the four Ps. Because the key to the success of any marketing program is the creation of value, firms attempt to develop products and services that customers perceive as valuable enough to buy. Dyson fans and fan heaters draw in and redirect surrounding air without potentially dangerous or fast-spinning blades or visible heating elements. Although more expensive than conventional fans and space heaters, these sculpturally beautiful appliances are perceived by consumers to be a valuable alternative to products that haven't significantly changed since the early 1900s.

**Price and Value Capture** Recall that the second element of the marketing mix is price. As part of the exchange process, a firm provides a product or a service, or some combination thereof, and in return, it gets money. Value-based marketing requires that firms charge a price that customers perceive as giving them a good value for the product they receive. Clearly, it is important for a firm to have a clear focus in terms of what products to sell, where to buy them, and what methods to use in selling them. But pricing is the only activity that actually brings in money and therefore influences revenues. If a price is set too high, it will not generate much volume. If a price is set too low, it may result in lower-than-optimal margins and profits. Therefore, price should be based on the value that the



Dyson creates value with its innovative products (left). It can therefore charge significantly more than the price charged for conventional fans (right).

(Left): Source: Dyson, Inc.; (right): ©Stockbyte/PunchStock/Getty Images



Dyson invoked two of the four Ps, price and place, by making a select number of fans available on Groupon at a heavily discounted price.

©digitalife/Alamy Stock Photo

customer perceives. Dyson fans can retail for \$150 or more; conventional fans retail for around \$25. Customers can decide what they want from their fan and choose the one at the price they prefer.

**Place and Value Delivery** For the third P, place, after it has created value through a product and/or service, the firm must be able to make the product or service readily accessible when and where the customer wants it. Dyson therefore features fans prominently on its website, but also makes sure to place them on Amazon and in Bed Bath & Beyond stores. In these locations, consumers previously found other Dyson products, and they likely would look for fans there too.

**Promotion and Value Communication** **Integrated marketing communications (IMC)** represents the fourth P, promotion. It encompasses a variety of communication disciplines—advertising, personal selling, sales promotion, public relations, direct marketing, and online marketing including social media—in combination to provide clarity, consistency, and maximum communicative impact.<sup>45</sup> Using the various disciplines of its IMC program, marketers communicate a *value proposition*, which is the unique value that a product or service provides to its customers and how it is better than and different from those of competitors.

To increase its exposure, Dyson offers promotions for its products not only on its website but also on promotion websites such as coupon.com and Groupon. That is, it makes a select number of products available on several promotion channels at a discounted price to encourage people to try the innovations.

## Step 5: Evaluate Performance Using Marketing Metrics

The final step in the planning process includes evaluating the results of the strategy and implementation program using marketing metrics. A **metric** is a measuring system that quantifies a trend, dynamic, or characteristic. Metrics are used to explain why things happened and also project the future. They make it possible to compare results across regions, strategic business units (SBUs), product lines, and time periods. The firm can determine why it achieved or did not achieve its performance goals with the help of these metrics. Understanding the causes of the performance, regardless of whether that performance exceeded, met, or fell below established goals, enables firms to make appropriate adjustments. Procter & Gamble uses performance metrics to test its new geolocation method of reaching users of the popular social networking app Snapchat, as Social & Mobile Marketing 2.1 reveals.



## Social & Mobile Marketing 2.1

### Making Snapchat More Strategic: How CoverGirl Uses Geotargeting to Leverage the Marketing Potential of a Fun App<sup>iii</sup>

Companies know well that social media apps can be great for their marketing communications, enabling them to reach lots of customers in a fun and engaging way. But while some apps offer detailed data about how consumers behave, many others do not provide any such insights because their primary goal is helping users have fun.

Take Snapchat for example. It allows visitors to overlay photo filters, but it has no capacity to calculate or show advertisers who is using its branded overlays or what consumers do after adopting such a filter. All it can tell them is how many people used the focal filter, which is not nearly enough information to be used to make any marketing decisions.

Recognizing that Snapchat lacked a user-friendly dashboard or summary statistics that might provide it with straightforward insights and marketing data, Procter & Gamble (P&G) decided that it needed to do the analytical work on its own. It devised an innovative marketing strategy: It would release *Star Wars*-themed lines of cosmetics under its CoverGirl brand, available only in Ulta retail stores. At the same time, it would allow Snapchat users to apply a related filter to their photos, all coinciding with the release of *Star Wars: The Force Awakens*. The social media move was likely to enhance brand awareness by revealing to users that the *Star Wars*-linked products even existed. But P&G also wanted to increase sales. To measure these effects, it implemented a detailed, careful experiment.

First, it created geofilters that reflected the locations of the 868 Ulta stores in which the new eye and lip cosmetic product lines were available. If a consumer was located near one of these stores and also visited Snapchat to post a photo, she encountered the option to use a filter that featured logos for Ulta, CoverGirl, and *Star Wars*, as well as a frame that surrounded the picture with what looked like lightsaber rays. However, P&G did not make the filter available for every store that carried the makeup products. By strategically limiting the application of the campaign, it created what was essentially a control sample: stores whose consumers could not have seen the Snapchat-affiliated advertising campaign whose sales could be compared with those that had the campaign.

Second, it gathered data about how many Snapchat users saw a related ad on the social media site, how many times they swiped to look at the filter, and how many times they used that filter. Then it correlated these data with sales information available from Ulta stores that prompted the geolocated



*Through the Snapchat platform, P&G's CoverGirl brand developed a Star Wars-themed cosmetics line that is available only in Ulta stores. If a consumer was located near an Ulta store that had the cosmetics line, and also posted a photo on Snapchat, she could use a filter that featured logos for Ulta, CoverGirl, and Star Wars, as well as a frame that surrounded the picture with what looked like lightsaber rays.*

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campaign and those that did not. By combining these data, P&G could obtain a pretty clear idea of how many of the sales stemmed from the Snapchat campaign because they took place in a focal store, versus how many sales would have occurred without the advertising, according to the sales data for similar but nongeolocation-linked stores.

Third, P&G compared the results of this social media campaign, timed to link with a major movie release, against a similar campaign that it conducted in 2013, in relation to the arrival of a new *Hunger Games* film in theaters. In that previous effort, though, it relied on traditional television advertising and a brand-linked Tumblr blog instead of Snapchat. Although the company declined to release exact numbers, it determined that the new Snapchat strategy was more efficient, more effective, and less costly. Thus P&G might have invented the analytics that make it possible to calculate the returns on Snapchat campaigns, but the method holds great promise for any marketer willing to undertake similar efforts in social media channels.

Typically, managers begin by reviewing the implementation programs, and their analysis may indicate that the strategy (or even the mission statement) needs to be reconsidered. Problems can arise both when firms successfully implement poor strategies and when they poorly implement good strategies.

**Who Is Accountable for Performance?** At each level of an organization, the business unit and its manager should be held accountable only for the revenues, expenses, and profits that they can control. Thus, expenses that affect several levels of the organization (such as



## Ethical & Societal Dilemma 2.1

### Volkswagen's "Dieselgate" Scandal<sup>iv</sup>

The automotive market really was rocked by scandal when the U.S. Environmental Protection Agency discovered that many of the cars that Volkswagen (VW) had sold in the United States contained faulty software, apparently installed purposefully. The purpose of the software was to detect the amount of emissions produced by the cars' diesel engines—information that is critical to regulators that enforce emissions standards, as well as to consumers who seek environmentally friendly transportation options. But when the cars underwent emissions tests, the software tweaked their performance, making it seem better than it was normally.

Instead, when driven under normal conditions, the diesel-engine cars were emitting approximately 40 times the legal limit imposed on nitrogen oxide pollutants. That is, the vehicles were polluting illegally, and then the integrated software was falsifying the data, so that no one could even identify the damage.

But the evidence came to light, forcing VW to admit that approximately 11 million cars worldwide, sold over the course of nearly a decade, had been outfitted with the emissions-cheating software. The cars in question came with multiple brand names in the VW portfolio, including not just the VW brand but also Skoda, SEAT, and Audi. Soon thereafter, the company came under scrutiny again when it admitted to finding an irregularity in tests measuring carbon dioxide emissions that could affect an additional 800,000 vehicles, though subsequent investigations led VW to reduce that estimate to only 36,000 cars being affected.

In handling the situation, VW has provided examples of both what to do and what not to do. The company quickly instituted several internal changes, mainly designed to increase the amount of oversight and thereby prevent such unacceptable practices in the future. In implementing both structural and management changes, VW also replaced a number of key executives. Top executives also firmly asserted that the scandal was



Consumers protest Volkswagen's falsification of its cars' emissions.

©John MacDougall/Getty Images

the result of poor choices by a relatively small group of middle managers, not indicative of a wider corporate ethical lapse.

The scandal has had powerful and drastic effects on the performance of the world's biggest car manufacturer. Sales in the United States dropped by nearly one-quarter, compared with same-month sales for the previous year, immediately following the scandalous announcement. The drop—resulting both from consumers' perception that the brand is not trustworthy and from the loss of sales that followed from the company pulling the affected engines off the market—is a particular concern for VW today because the automotive industry as a whole is on track to post record sales. In addition, VW could owe an estimated \$18.2 billion in fines related to the scandal, not to mention the further legal and reputational costs it is likely to accrue. Yet the company's chief executive remains remarkably confident, noting that "Although the current situation is serious, this company will not be broken by it." Only time will tell if he is right.

the labor and capital expenses associated with operating a corporate headquarters) shouldn't be arbitrarily assigned to lower levels. In the case of a store, for example, it may be appropriate to evaluate performance objectives based on sales, sales associate productivity, and energy costs. If the corporate office lowers prices to get rid of merchandise and therefore profits suffer, then it's not fair to assess a store manager's performance based on the resulting decline in store profit.

Performance evaluations are used to pinpoint problem areas. Reasons performance may be above or below planned levels must be examined. If a manager's performance is below planned levels, was it because the sales force didn't do an adequate job, because the economy took a downward turn, because competition successfully implemented a new strategy, or because the managers involved in setting the objectives aren't very good at making estimates? The manager should be held accountable only in the case of the inadequate sales force job or setting inappropriate forecasts. When the fault is difficult to assign, the company faces a serious challenge, as Ethical & Societal Dilemma 2.1 explains



Promotional discounts are one way General Mills is trying to save the cereal industry.

©Joe Raedle/Getty Images

in relation to Volkswagen's attempts to respond to the scandal surrounding falsified emissions data for diesel engines in its cars.

When it appears that actual performance is going to be below the plan because of circumstances beyond the manager's control, the firm can still take action to minimize the harm. Similar to the soft drink industry, the cereal industry has been beset by a number of setbacks due to trends in the wider consumer environment. People seek to cut carbohydrates out of their diets, but cereal is mostly carbs. Many consumers are recognizing their allergies to gluten, but many cereals include wheat as a main ingredient. In response, the largest cereal maker General Mills (GM) has called on its competitors to step up their marketing efforts to save the industry. Leading the way, it has increased its advertising budget and offers promotional discounts on some of its most popular cereal brands, including Cheerios.<sup>46</sup>

In remarkable cases such as this, marketing managers must ask themselves several relevant questions: How quickly were plans adjusted? How rapidly and appropriately were pricing and promotional policies modified? In short, did I react to salvage an adverse situation, or did my reactions worsen the situation?

**Performance Objectives, Marketing Analytics, and Metrics** Many factors contribute to a firm's overall performance, which makes it hard to find a single metric to evaluate performance.<sup>47</sup> One approach is to compare a firm's performance over time or to competing firms, using common financial metrics such as sales and profits. Another method of assessing performance is to view the firm's products or services as a portfolio. Depending on the firm's relative performance, the profits from some products or services are used to fuel growth for others.

With its extensive data, Google claims that it can use a combination of metrics to predict the performance of a major motion picture up to a month prior to the date it opens in theaters. Using search volume for the movie title in combination with several other metrics, such as the season and whether the movie is a sequel, Google promises a 94 percent accurate prediction of box office performance. Other proprietary metrics include the volume of clicks on search ads. If, for example, one movie prompted 20,000 more paid clicks than another film, it will bring in approximately \$7.5 million more in revenues during its opening weekend. Beyond the implications for opening weekend, Google asserts that weekday searches in the weeks leading up to the release offer better predictors of continued revenues. That is, if a film fan searches for a movie title on a Tuesday, she or he is more likely to hold off on seeing the movie rather than rushing out during opening weekend.<sup>48</sup> Google's extensive analytics abilities support its competitive tactics in other markets too, as Marketing Analytics 2.1 describes.

**Financial Performance Metrics** Some commonly used metrics to assess performance include revenues, or sales, and profits. For instance, sales are a global measure of a firm's activity level. However, a manager could easily increase sales by lowering prices, but the profit realized on that merchandise (gross margin) would suffer as a result. An attempt to maximize one metric may therefore lower another. Thus, managers must understand how their actions affect multiple performance metrics. It's usually unwise to use only one metric because it rarely tells the whole story.

In addition to assessing the absolute level of sales and profits, a firm may wish to measure the relative level of sales and profits. For example, a relative metric of sales or profits is its increase or decrease over the prior year. In addition, a firm may compare its growth in sales or profits relative to other benchmark companies (e.g., Coke may compare itself to Pepsi).

The metrics used to evaluate a firm vary depending on (1) the level of the organization at which the decision is made and (2) the resources the manager controls. For example, although the top executives of a firm have control over all of the firm's resources and



## Marketing Analytics 2.1

### The First Name in Predictive Analytics: Google<sup>v</sup>

In the world of analytics, Google has made a significant name for itself because, from the moment it was established, Google has put predictive analytics at the heart of the company. As the most widely used search engine, Google needs to be able to predict which websites and pages a person is seeking, based on just a few keywords. Google is so successful at this method that few users even bother going to the second page of the results list in a Google search. Google now offers Google Analytics for companies to help improve their online presence by providing insights into customers' web searching behavior. In addition, Google has started using its analytics for more than just its search engine. They were critical to the development of Android software, Apple's biggest competitor in the smartphone domain. Now with the help of its sophisticated analytics, Google is taking on Apple in another domain as well: cars.

In Google's 2015 Android boot camp, the company officially introduced its Android Auto dashboard interface, which will face off against Apple's CarPlay. Data analytics have played a big role in the development of these systems. Study after study has shown how dangerous it is to drive while using one's phone. Data even show that driving while using a smartphone is equatable to driving while under the influence of alcohol. These startling results have spurred top phone system manufacturers' interest in creating dashboard platforms. When Google debuted Android Auto, it was clear that extensive analytics went into the development of every feature.

For example, Google developed a driver distraction lab to learn what tasks people do frequently when driving. These data informed which functions would be included and how



*Data analytics have played a big role in developing Google's Android Auto dashboard interface to help keep drivers safe while using electronic dashboard functions.*

*©David Paul Morris/Bloomberg via Getty Images*

they would work in the Android Auto system. According to Google's studies, no action should take longer than two seconds, so every function of Android Auto must be "glanceable." In addition, the interface does not include any "back" or "recent" buttons. Not only are social media apps blocked, but texting is accessible only through voice commands. With these improvements in the connection between phones and cars, data analytics are helping make the world both more convenient and safer.

resulting expenses, a regional sales manager has control over only the sales and expenses generated by his or her salespeople.

Let's look at Pepsi's sales revenue and profits (after taxes) and compare them with those of Coca-Cola (Exhibit 2.5).

**EXHIBIT 2.5** Performance Metrics: Coke vs. Pepsi

