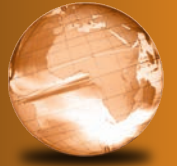


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MARKETING  
MANAGEMENT

15e

# Marketing Management

15

Global Edition

**PHILIP KOTLER**

Northwestern University

**KEVIN LANE KELLER**

Dartmouth College

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This book is dedicated to my wife and best friend, Nancy, with love.

**—PK**

This book is dedicated to my wife, Punam, and my two daughters, Carolyn and Allison, with much love and thanks.

**—KLK**

---

# About the Authors

Philip Kotler



**Philip Kotler** is one of the world's leading authorities on marketing. He is the S. C. Johnson & Son Distinguished Professor of International Marketing at the Kellogg School of Management, Northwestern University. He received his master's degree at the University of Chicago and his Ph.D. at MIT, both in economics. He did postdoctoral work in mathematics at Harvard University and in behavioral science at the University of Chicago.

Dr. Kotler is the coauthor of *Principles of Marketing and Marketing: An Introduction*. His *Strategic Marketing for Nonprofit Organizations*, now in its seventh edition, is the best seller in that specialized area.

Dr. Kotler's other books include *Marketing Models*; *The New Competition*; *Marketing Professional Services*; *Strategic Marketing for Educational Institutions*; *Marketing for Health Care Organizations*; *Marketing Congregations*; *High Visibility*; *Social Marketing*; *Marketing Places*; *The Marketing of Nations*; *Marketing for Hospitality and Tourism*; *Standing Room Only—Strategies for Marketing the Performing Arts*; *Museum Strategy and Marketing*; *Marketing Moves*; *Kotler on Marketing*; *Lateral Marketing*; *Winning at Innovation*; *Ten Deadly Marketing Sins*; *Chaotics*; *Marketing Your Way to Growth*; *Winning Global Markets*; and *Corporate Social Responsibility*.

In addition, he has published more than 150 articles in leading journals, including the *Harvard Business Review*, *Sloan Management Review*, *Business Horizons*, *California Management Review*, the *Journal of Marketing*, the *Journal of Marketing Research*, *Management Science*, the *Journal of Business Strategy*, and *Futurist*. He is the only three-time winner of the coveted *Alpha Kappa Psi* award for the best annual article published in the *Journal of Marketing*.

Professor Kotler was the first recipient of the American Marketing Association's (AMA) *Distinguished Marketing Educator Award* (1985). The *European Association of Marketing Consultants and Sales Trainers* awarded him their *Prize for Marketing Excellence*. He was chosen as the *Leader in Marketing Thought* by the Academic Members of the AMA in a 1975 survey. He also received the 1978 *Paul Converse Award* of the AMA, honoring his original contribution to marketing. In 1995, the *Sales and Marketing Executives International (SMEI)* named him *Marketer of the Year*. In 2002, Professor Kotler received the *Distinguished Educator Award* from the *Academy of Marketing Science*. In 2013, he received the *William L. Wilkie "Marketing for a Better World" Award* and subsequently received the *Sheth Foundation Medal for Exceptional Contribution to Marketing Scholarship and Practice*. In 2014, he was inducted in the *Marketing Hall of Fame*.

He has received honorary doctoral degrees from *Stockholm University*, the *University of Zurich*, *Athens University of Economics and Business*, *DePaul University*, the *Cracow School of Business and Economics*, *Groupe H.E.C. in Paris*, the *Budapest School of Economic Science and Public Administration*, the *University of Economics and Business Administration in Vienna*, and *Plekhanov Russian Academy of Economics*. Professor Kotler has been a consultant to many major U.S. and foreign companies, including *IBM*, *General Electric*, *AT&T*, *Honeywell*, *Bank of America*, *Merck*, *SAS Airlines*, *Michelin*, and others in the areas of marketing strategy and planning, marketing organization, and international marketing.

He has been *Chairman of the College of Marketing of the Institute of Management Sciences*, a *Director of the American Marketing Association*, a *Trustee of the Marketing Science Institute*, a *Director of the MAC Group*, a member of the *Yankelovich Advisory Board*, and a member of the *Copernicus Advisory Board*. He was a member of the *Board of Governors of the School of the Art Institute of Chicago* and a member of the *Advisory Board of the Drucker Foundation*. He has traveled extensively throughout Europe, Asia, and South America, advising and lecturing to many companies about global marketing opportunities.



**Kevin Lane Keller** is the E. B. Osborn Professor of Marketing at the Tuck School of Business at Dartmouth College. Professor Keller has degrees from Cornell, Carnegie-Mellon, and Duke universities. At Dartmouth, he teaches MBA courses on marketing management and strategic brand management and lectures in executive programs on those topics.

Previously, Professor Keller was on the faculty at Stanford University, where he also served as the head of the marketing group. Additionally, he has been on the faculty at the University of California at Berkeley and the University of North Carolina at Chapel Hill, has been a visiting professor at Duke University and the Australian

Graduate School of Management, and has two years of industry experience as Marketing Consultant for Bank of America.

Professor Keller's general area of expertise lies in marketing strategy and planning and branding. His specific research interest is in how understanding theories and concepts related to consumer behavior can improve marketing strategies. His research has been published in three of the major marketing journals: the *Journal of Marketing*, the *Journal of Marketing Research*, and the *Journal of Consumer Research*. He also has served on the Editorial Review Boards of those journals. With more than 90 published papers, his research has been widely cited and has received numerous awards.

Actively involved with industry, he has worked on a host of different types of marketing projects. He has served as a long-term consultant and advisor to marketers for some of the world's most successful brands, including Accenture, American Express, Disney, Ford, Intel, Levi Strauss, Procter & Gamble, and Samsung. Additional brand consulting activities have been with other top companies such as Allstate, Beiersdorf (Nivea), BlueCross BlueShield, Campbell, Colgate, Eli Lilly, ExxonMobil, General Mills, GfK, Goodyear, Hasbro, Intuit, Johnson & Johnson, Kodak, L.L.Bean, Mayo Clinic, MTV, Nordstrom, Ocean Spray, Red Hat, SAB Miller, Shell Oil, Starbucks, Unilever, and Young & Rubicam. He has also served as an academic trustee for the Marketing Science Institute and served as their Executive Director from July 1, 2013, to July 1, 2015.

A popular and highly sought-after speaker, he has made speeches and conducted marketing seminars to top executives in a variety of forums. Some of his senior management and marketing training clients have included include such diverse business organizations as Cisco, Coca-Cola, Deutsche Telekom, ExxonMobil, GE, Google, IBM, Macy's, Microsoft, Nestle, Novartis, Pepsico, SC Johnson and Wyeth. He has lectured all over the world, from Seoul to Johannesburg, from Sydney to Stockholm, and from Sao Paulo to Mumbai. He has served as keynote speaker at conferences with hundreds to thousands of participants.

Professor Keller is currently conducting a variety of studies that address strategies to build, measure, and manage brand equity. His textbook on those subjects, *Strategic Brand Management*, in its fourth edition, has been adopted at top business schools and leading firms around the world and has been heralded as the "bible of branding."

An avid sports, music, and film enthusiast, in his so-called spare time, he has helped to manage and market, as well as serve as executive producer for, one of Australia's great rock-and-roll treasures, *The Church*, as well as American power-pop legends Tommy Keene and Dwight Twilley. He also serves on the Board of Directors for *The Doug Flutie, Jr. Foundation for Autism*, the *Lebanon Opera House*, and the *Montshire Museum of Science*. Professor Keller lives in Etna, NH, with his wife, Punam (also a Tuck marketing professor), and his two daughters, Carolyn and Allison.

# Brief Contents

**Preface 17**

**PART 1 Understanding Marketing Management 24**

**Chapter 1** Defining Marketing for the New Realities 25  
**Chapter 2** Developing Marketing Strategies and Plans 57

**PART 2 Capturing Marketing Insights 88**

**Chapter 3** Collecting Information and Forecasting Demand 89  
**Chapter 4** Conducting Marketing Research 121

**PART 3 Connecting with Customers 148**

**Chapter 5** Creating Long-Term Loyalty Relationships 149  
**Chapter 6** Analyzing Consumer Markets 179  
**Chapter 7** Analyzing Business Markets 211  
**Chapter 8** Tapping into Global Markets 239

**PART 4 Building Strong Brands 266**

**Chapter 9** Identifying Market Segments and Targets 267  
**Chapter 10** Crafting the Brand Positioning 297  
**Chapter 11** Creating Brand Equity 321  
**Chapter 12** Addressing Competition and Driving Growth 357

**PART 5 Creating Value 388**

**Chapter 13** Setting Product Strategy 389  
**Chapter 14** Designing and Managing Services 421  
**Chapter 15** Introducing New Market Offerings 451  
**Chapter 16** Developing Pricing Strategies and Programs 483

**PART 6 Delivering Value 514**

**Chapter 17** Designing and Managing Integrated Marketing Channels 515  
**Chapter 18** Managing Retailing, Wholesaling, and Logistics 549

**PART 7 Communicating Value 578**

**Chapter 19** Designing and Managing Integrated Marketing Communications 579  
**Chapter 20** Managing Mass Communications: Advertising, Sales Promotions, Events and Experiences, and Public Relations 607  
**Chapter 21** Managing Digital Communications: Online, Social Media, and Mobile 637  
**Chapter 22** Managing Personal Communications: Direct and Database Marketing and Personal Selling 657

**PART 8 Conducting Marketing Responsibly for Long-Term Success 678**

**Chapter 23** Managing a Holistic Marketing Organization for the Long Run 679

**Appendix: Sonic Marketing Plan and Exercises A1**

**Endnotes E1**

**Glossary G1**

**Name Index I1**

**Company, Brand, and Organization Index I5**

**Subject Index I18**

# Contents

## Preface 17

## PART 1 Understanding Marketing Management 24

### Chapter 1 Defining Marketing for the New Realities 25

- The Value of Marketing 25
  - Marketing Decision Making 25
  - Winning Marketing 26
- The Scope of Marketing 27
  - What Is Marketing? 27
  - What Is Marketed? 27
  - Who Markets? 29
- Core Marketing Concepts 31
  - Needs, Wants, and Demands 31
  - Target Markets, Positioning, and Segmentation 31
  - Offerings and Brands 32
  - Marketing Channels 32
  - Paid, Owned, and Earned Media 32
  - Impressions and Engagement 32
  - Value and Satisfaction 33
  - Supply Chain 33
  - Competition 34
  - Marketing Environment 34
- The New Marketing Realities 35
  - Technology 35
  - Globalization 36
  - Social Responsibility 36
- MARKETING INSIGHT** Getting to Marketing 3.0 37
- A Dramatically Changed Marketplace 38
  - New Consumer Capabilities 38
  - New Company Capabilities 39
  - Changing Channels 41
  - Heightened Competition 41
- Marketing in Practice 41
  - Marketing Balance 41
- MARKETING MEMO** Reinventing Marketing at Coca-Cola 42
  - Marketing Accountability 42
  - Marketing in the Organization 42
- Company Orientation toward the Marketplace 42
  - The Production Concept 42
  - The Product Concept 43

- The Selling Concept 43
- The Marketing Concept 43
- The Holistic Marketing Concept 43
- Updating the Four Ps 47

**MARKETING INSIGHT** Understanding the 4 As of Marketing 48

- Marketing Management Tasks 49
  - Developing Marketing Strategies and Plans 49
  - Capturing Marketing Insights 50
  - Connecting with Customers 50
  - Building Strong Brands 50

**MARKETING MEMO** Marketers' Frequently Asked Questions 50

- Creating Value 51
- Delivering Value 51
- Communicating Value 51
- Conducting Marketing Responsibly for Long-Term Success 51

### Summary 51

### Applications 52

**MARKETING EXCELLENCE** Nike 52

**MARKETING EXCELLENCE** Google 54

### Chapter 2 Developing Marketing Strategies and Plans 57

- Marketing and Customer Value 57
  - The Value Delivery Process 57
  - The Value Chain 58
  - Core Competencies 58
  - The Central Role of Strategic Planning 59
- Corporate and Division Strategic Planning 60
- MARKETING MEMO** What Does It Take to Be a Successful CMO? 61
  - Defining the Corporate Mission 61
  - Establishing Strategic Business Units 64
  - Assigning Resources to Each SBU 64
  - Assessing Growth Opportunities 64
  - Organization and Organizational Culture 68
  - Marketing Innovation 69
- MARKETING INSIGHT** Creating Innovative Marketing 69
- Business Unit Strategic Planning 70
  - The Business Mission 71
  - SWOT Analysis 71



**MARKETING MEMO** Checklist for Evaluating Strengths/Weaknesses Analysis 73

Goal Formulation 74  
Strategic Formulation 74  
Program Formulation and Implementation 75

**MARKETING INSIGHT** Businesses Charting a New Direction 76

Feedback and Control 77

The Nature and Contents of a Marketing Plan 77

**MARKETING MEMO** Marketing Plan Criteria 77

The Role of Research 78  
The Role of Relationships 78  
From Marketing Plan to Marketing Action 79

**Summary** 79

**Applications** 80

**MARKETING EXCELLENCE** Electrolux 80

**MARKETING EXCELLENCE** Emirates 81  
Sample Marketing Plan: Pegasus Sports International 83

**MARKETING MEMO** Finding Gold at the Bottom of the Pyramid 97

The Economic Environment 99  
The Sociocultural Environment 100  
The Natural Environment 101

**MARKETING INSIGHT** The Green Marketing Revolution 103

The Technological Environment 104  
The Political-Legal Environment 105

**MARKETING INSIGHT** Watching Out for Big Brother 107

Forecasting and Demand Measurement 107

The Measures of Market Demand 108  
A Vocabulary for Demand Measurement 109  
Estimating Current Demand 111  
Estimating Future Demand 113

**Summary** 115

**Applications** 116

**MARKETING EXCELLENCE** Microsoft 116

**MARKETING EXCELLENCE** Ferrero 117

---

## **PART 2** Capturing Marketing Insights 88

---

### **Chapter 3** Collecting Information and Forecasting Demand 89

Components of a Modern Marketing Information System 89

Internal Records 91

The Order-to-Payment Cycle 91  
Sales Information Systems 91  
Databases, Data Warehousing, and Data Mining 91

**MARKETING INSIGHT** Digging Into Big Data 92

Marketing Intelligence 92

The Marketing Intelligence System 92  
Collecting Marketing Intelligence on the Internet 94  
Communicating and Acting on Marketing Intelligence 94

Analyzing the Macroenvironment 94

Needs and Trends 95  
Identifying the Major Forces 95  
The Demographic Environment 96

---

### **Chapter 4** Conducting Marketing Research 121

The Scope of Marketing Research 121

Importance of Marketing Insights 121  
Who Does Marketing Research? 122  
Overcoming Barriers to the Use of Marketing Research 123

The Marketing Research Process 124

Step 1: Define the Problem, the Decision Alternatives, and the Research Objectives 124  
Step 2: Develop the Research Plan 125

**MARKETING MEMO** Conducting Informative Focus Groups 127

**MARKETING MEMO** Marketing Questionnaire Dos And Don'ts 130

**MARKETING INSIGHT** Getting into the Heads of Consumers 131

**MARKETING INSIGHT** Understanding Brain Science 133

Step 3: Collect the Information 135  
Step 4: Analyze the Information 135  
Step 5: Present the Findings 135

**MARKETING INSIGHT** Bringing Marketing Research to Life with Personas 136

Step 6: Make the Decision 136  
Measuring Marketing Productivity 137  
Marketing Metrics 137

**MARKETING MEMO** Measuring Social  
Media ROI 139

Marketing-Mix Modeling 140  
Marketing Dashboards 140

**MARKETING MEMO** Designing Effective  
Marketing Dashboards 141

**Summary** 143

**Applications** 143

**MARKETING EXCELLENCE** IDEO 144

**MARKETING EXCELLENCE** Intuit 146

---

## **PART 3** Connecting with Customers 148

---

### **Chapter 5** Creating Long-Term Loyalty Relationships 149

Building Customer Value, Satisfaction, and  
Loyalty 149

Customer-Perceived Value 150  
Total Customer Satisfaction 153  
Monitoring Satisfaction 155  
Product and Service Quality 156

**MARKETING INSIGHT** Net Promoter and  
Customer Satisfaction 157

Maximizing Customer Lifetime Value 158  
Customer Profitability 159  
Measuring Customer Lifetime  
Value 160

Attracting and Retaining Customers 160

**MARKETING MEMO** Calculating Customer  
Lifetime Value 161

Building Loyalty 164  
Brand Communities 165  
Win-Backs 168

Cultivating Customer Relationships 168  
Customer Relationship Management 168

**MARKETING INSIGHT** The Behavioral  
Targeting Controversy 169

**Summary** 174

**Applications** 174

**MARKETING EXCELLENCE** Audi 175

**MARKETING EXCELLENCE**  
Harley-Davidson 176

---

## **Chapter 6** Analyzing Consumer Markets 179

What Influences Consumer Behavior? 179  
Cultural Factors 179  
Social Factors 181  
Personal Factors 183

**MARKETING MEMO** The Average U.S.  
Consumer Quiz 184

Key Psychological Processes 187  
Motivation 187  
Perception 189

**MARKETING MEMO** The Power of Sensory  
Marketing 189

Learning 191  
Emotions 192  
Memory 193

The Buying Decision Process: The Five-Stage  
Model 194

Problem Recognition 195  
Information Search 196  
Evaluation of Alternatives 197  
Purchase Decision 198  
Postpurchase Behavior 200  
Moderating Effects on Consumer Decision  
Making 202

Behavioral Decision Theory and Behavioral  
Economics 202

Decision Heuristics 203  
Framing 204

**Summary** 205

**Applications** 205

**MARKETING EXCELLENCE** Disney 206

**MARKETING EXCELLENCE** IKEA 207

---

## **Chapter 7** Analyzing Business Markets 211

What is Organizational Buying? 211  
The Business Market versus the Consumer  
Market 211  
Buying Situations 214

Participants in the Business Buying  
Process 215

The Buying Center 216  
Buying Center Influences 216  
Targeting Firms and Buying Centers 217

**MARKETING INSIGHT** Big Sales to Small  
Businesses 218

The Purchasing/Procurement Process 219

Stages in the Buying Process 220  
Problem Recognition 220

General Need Description and Product Specification 221  
Supplier Search 221  
Proposal Solicitation 223  
Supplier Selection 223

**MARKETING MEMO** Developing Compelling Customer Value Propositions 224  
Order-Routine Specification 226  
Performance Review 226

**Developing Effective Business-to-Business Marketing Programs** 226  
Communication and Branding Activities 226  
Systems Buying and Selling 228

**MARKETING MEMO** Spreading the Word with Customer Reference Programs 229  
Role of Services 229

**Managing Business-to-Business Customer Relationships** 230  
The Benefits of Vertical Coordination 230

**MARKETING INSIGHT** Establishing Corporate Trust, Credibility, and Reputation 231

Risks and Opportunism in Business Relationships 231

**Institutional and Government Markets** 233

**Summary** 234

**Applications** 235

**MARKETING EXCELLENCE** Accenture 235

**MARKETING EXCELLENCE** GE 236

Global Communication Strategies 257  
Global Pricing Strategies 257  
Global Distribution Strategies 259

**Country-of-Origin Effects** 260  
Building Country Images 260  
Consumer Perceptions of Country of Origin 261

**Summary** 262

**Applications** 263

**MARKETING EXCELLENCE** Twitter 263

**MARKETING EXCELLENCE** L'Oréal 264

---

## **PART 4 Building Strong Brands** 266

---

### **Chapter 9 Identifying Market Segments and Targets** 267

**Bases for Segmenting Consumer**

**Markets** 268

Geographic Segmentation 268

Demographic Segmentation 271

Psychographic Segmentation 280

Behavioral Segmentation 281

**How Should Business Markets Be Segmented?** 283

**Market Targeting** 284

**Effective Segmentation Criteria** 285

Evaluating and Selecting the Market Segments 286

**MARKETING INSIGHT** Chasing the Long Tail 289

**MARKETING MEMO** Protecting Kids Online 291

**Summary** 291

**Applications** 292

**MARKETING EXCELLENCE** HSBC 292

**MARKETING EXCELLENCE** BMW 294

---

### **Chapter 10 Crafting the Brand Positioning** 297

**Developing a Brand Positioning** 297

Understanding Positioning and Value Propositions 297

**Choosing a Competitive Frame of**

**Reference** 298

Identifying Potential Points-of-Difference and Points-of-Parity 300

---

### **Chapter 8 Tapping into Global Markets** 239

**Competing on a Global Basis** 239

**Deciding Whether to Go Abroad** 241

**Deciding Which Markets to Enter** 242

How Many Markets to Enter 242

Evaluating Potential Markets 243

Succeeding in Developing Markets 243

**Deciding How to Enter the Market** 248

Indirect and Direct Export 249

Licensing 249

Joint Ventures 250

Direct Investment 250

Acquisition 250

**Deciding on the Marketing Program** 251

Global Similarities and Differences 252

Marketing Adaptation 253

Global Product Strategies 254

Choosing Specific POPs and PODs 304  
Brand Mantras 307

Establishing a Brand Positioning 309

**MARKETING MEMO** Constructing a Brand  
Positioning Bull's-eye 309

Alternative Approaches to Positioning 313  
Brand Narratives and Storytelling 313  
Cultural Branding 314

Positioning and Branding for A Small  
Business 314

**Summary 317**

**Applications 317**

**MARKETING EXCELLENCE**  
Nespresso 318

**MARKETING EXCELLENCE**  
Philips 319

---

## **Chapter 11 Creating Brand Equity 321**

How Does Branding Work? 321  
The Role of Brands 322  
The Scope of Branding 323

Defining Brand Equity 324  
Brand Equity Models 326

**MARKETING INSIGHT** Brand Bubble  
Trouble 328

Building Brand Equity 331

**MARKETING MEMO** The Marketing Magic of  
Characters 332

Designing Holistic Marketing Activities 332  
Leveraging Secondary Associations 334  
Internal Branding 336

Measuring Brand Equity 337

**MARKETING INSIGHT** The Brand Value  
Chain 337

**MARKETING INSIGHT** What Is a Brand  
Worth? 339

Managing Brand Equity 340  
Brand Reinforcement 340  
Brand Revitalization 341

Devising a Branding Strategy 343  
Branding Decisions 344  
Brand Portfolios 345  
Brand Extensions 347

Customer Equity 350

**MARKETING MEMO** Twenty-First-Century  
Branding 351

**Summary 352**

**Applications 352**

**MARKETING EXCELLENCE** McDonald's 353

**MARKETING EXCELLENCE**  
Procter & Gamble 354

---

## **Chapter 12 Addressing Competition and Driving Growth 357**

Growth 357

Growth Strategies 357  
Growing the Core 358

Competitive Strategies for Market

Leaders 359

Expanding Total Market Demand 360  
Protecting Market Share 361  
Increasing Market Share 363

Other Competitive Strategies 364

Market-Challenger Strategies 364  
Market-Follower Strategies 366

**MARKETING INSIGHT** The Costs and  
Benefits of Fast Fashion 367

Market-Nicher Strategies 368

**MARKETING MEMO** Niche Specialist  
Roles 370

Product Life-Cycle Marketing Strategies 370

Product Life Cycles 370  
Style, Fashion, and Fad Life Cycles 371  
Marketing Strategies: Introduction Stage and  
the Pioneer Advantage 373

**MARKETING INSIGHT** Understanding  
Double Jeopardy 374

Marketing Strategies: Growth Stage 375  
Marketing Strategies: Maturity Stage 376  
Marketing Strategies: Decline Stage 377

**MARKETING MEMO** Managing a Marketing  
Crisis 378

Evidence for the Product Life-Cycle  
Concept 380  
Critique of the Product Life-Cycle  
Concept 381  
Market Evolution 381

Marketing in a Slow-Growth Economy 381

Explore the Upside of Increasing  
Investment 381  
Get Closer to Customers 382  
Review Budget Allocations 382  
Put Forth the Most Compelling Value  
Proposition 382

Fine-Tune Brand and Product Offerings 383

**Summary 384**

**Applications 384**

**MARKETING EXCELLENCE**

Samsung 385

**MARKETING EXCELLENCE** SABIC 386

**MARKETING EXCELLENCE**

Nivea 416

**MARKETING EXCELLENCE**

Toyota 418

---

## **PART 5 Creating Value 388**

---

### **Chapter 13 Setting Product Strategy 389**

Product Characteristics and

Classifications 389

Product Levels: The Customer-Value

Hierarchy 389

Product Classifications 391

Differentiation 392

Product Differentiation 393

Services Differentiation 394

Design 396

Design Leaders 396

Power of Design 397

Approaches to Design 397

Luxury Products 398

Characterizing Luxury Brands 398

Growing Luxury Brands 398

Marketing Luxury Brands 399

Environmental Issues 400

**MARKETING MEMO** A Sip or A Gulp:

Environmental Concerns in the Water Industry 401

Product and Brand Relationships 401

The Product Hierarchy 402

Product Systems and Mixes 402

Product Line Analysis 403

Product Line Length 404

**MARKETING INSIGHT** When Less Is

More 405

Product Mix Pricing 408

Co-Branding and Ingredient

Branding 409

**MARKETING MEMO** Product-Bundle Pricing

Considerations 410

Packaging, Labeling, Warranties, and

Guarantees 412

Packaging 412

Labeling 414

Warranties and Guarantees 415

**Summary 415**

**Applications 416**

---

### **Chapter 14 Designing and Managing Services 421**

The Nature of Services 421

Service Industries Are Everywhere 421

Categories of Service Mix 422

Distinctive Characteristics of Services 424

The New Services Realities 428

A Shifting Customer Relationship 428

**MARKETING MEMO** Lights! Cameras!

Customer Service Disasters! 430

Achieving Excellence In Services

Marketing 431

Marketing Excellence 431

Technology and Service

Delivery 432

Best Practices of Top Service

Companies 433

Differentiating Services 435

**MARKETING INSIGHT** Improving Company

Call Centers 436

Managing Service Quality 439

Managing Customer Expectations 440

**MARKETING MEMO** Recommendations for

Improving Service Quality 441

Incorporating Self-Service Technologies

(SSTS) 443

Managing Product-Support Services 444

Identifying and Satisfying Customer

Needs 444

Postsale Service Strategy 445

**Summary 445**

**Applications 446**

**MARKETING EXCELLENCE**

Club Med 446

**MARKETING EXCELLENCE**

Parkway Group Hotels 448

---

### **Chapter 15 Introducing New Market Offerings 451**

New-Product Options 451

Make or Buy 451

Types of New Products 452

<b>Challenges in New-Product Development</b>	<b>453</b>
The Innovation Imperative	454
New-Product Success	454
New-Product Failure	455
<b>Organizational Arrangements</b>	<b>456</b>
Budgeting for New-Product Development	456
Organizing New-Product Development	457
<b>Managing the Development Process: Ideas</b>	<b>460</b>
Generating Ideas	460
<b>MARKETING MEMO</b> Ten Ways to Find Great New-Product Ideas	<b>460</b>
<b>MARKETING INSIGHT</b> P&G'S Connect + Develop Approach to Innovation	<b>461</b>
<b>MARKETING MEMO</b> Seven Ways to Draw New Ideas from Your Customers	<b>462</b>
<b>MARKETING MEMO</b> How to Run a Successful Brainstorming Session	<b>464</b>
Using Idea Screening	465
<b>Managing the Development Process: Concept to Strategy</b>	<b>467</b>
Concept Development and Testing	467
Marketing Strategy Development	470
Business Analysis	470
<b>Managing the Development Process: Development to Commercialization</b>	<b>472</b>
Product Development	472
Market Testing	473
Commercialization	475
<b>The Consumer-Adoption Process</b>	<b>476</b>
Stages in the Adoption Process	476
Factors Influencing the Adoption Process	476
<b>Summary</b>	<b>478</b>
<b>Applications</b>	<b>479</b>
<b>MARKETING EXCELLENCE</b> Apple	479
<b>MARKETING EXCELLENCE</b> Salesforce.com	481

---

## **Chapter 16** Developing Pricing Strategies and Programs **483**

<b>Understanding Pricing</b>	<b>483</b>
Pricing in a Digital World	484
A Changing Pricing Environment	484
<b>MARKETING INSIGHT</b> Giving It All Away	<b>485</b>
How Companies Price	486
Consumer Psychology and Pricing	487

<b>Setting the Price</b>	<b>489</b>
Step 1: Selecting the Pricing Objective	489

**MARKETING INSIGHT** Trading Up, Down, and Over 490

Step 2: Determining Demand	492
Step 3: Estimating Costs	494

**MARKETING MEMO** How to Cut Costs 496

Step 4: Analyzing Competitors' Costs, Prices, and Offers	496
Step 5: Selecting a Pricing Method	497
Step 6: Selecting the Final Price	502

**MARKETING INSIGHT** Stealth Price Increases 503

**Adapting the Price** 504

Geographical Pricing (Cash, Countertrade, Barter)	504
Price Discounts and Allowances	504
Promotional Pricing	505
Differentiated Pricing	506

**Initiating and Responding to Price Changes** 507

Initiating Price Cuts	507
Initiating Price Increases	508
Anticipating Competitive Responses	508
Responding to Competitors' Price Changes	509

**Summary** 510

**Applications** 510

**MARKETING EXCELLENCE** eBay 511

**MARKETING EXCELLENCE**

    Air Arabia 512

---

## **PART 6** Delivering Value **514**

---

### **Chapter 17** Designing and Managing Integrated Marketing Channels **515**

**Marketing Channels and Value**

<b>Networks</b>	<b>516</b>
The Importance of Channels	516
Multichannel Marketing	516
Integrating Multichannel Marketing Systems	517
Value Networks	519
The Digital Channels Revolution	520

**The Role of Marketing Channels** 521

Channel Functions and Flows	522
Channel Levels	523
Service Sector Channels	524

Channel-Design Decisions 525  
 Analyzing Customer Needs and Wants 525

**MARKETING INSIGHT** Understanding the Showrooming Phenomena 525

Establishing Objectives and Constraints 526  
 Identifying Major Channel Alternatives 527  
 Evaluating Major Channel Alternatives 529

**Channel-Management Decisions** 530  
 Selecting Channel Members 530  
 Training and Motivating Channel Members 530  
 Evaluating Channel Members 531  
 Modifying Channel Design and Arrangements 532  
 Channel Modification Decisions 532  
 Global Channel Considerations 532

**Channel Integration and Systems** 534  
 Vertical Marketing Systems 534  
 Horizontal Marketing Systems 536

**E-Commerce Marketing Practices** 536  
 Pure-Click Companies 536  
 Brick-and-Click Companies 537

**M-Commerce Marketing Practices** 538  
 Changes in Customer and Company Behavior 539  
 M-Commerce Marketing Practices 539  
 Privacy 540

**Conflict, Cooperation, and Competition** 540  
 Types of Conflict and Competition 541  
 Causes of Channel Conflict 541  
 Managing Channel Conflict 541  
 Dilution and Cannibalization 543  
 Legal and Ethical Issues in Channel Relations 543

**Summary** 543  
**Applications** 544

**MARKETING EXCELLENCE**  
 Amazon.com 544

**MARKETING EXCELLENCE** Tesco 546

---

**Chapter 18 Managing Retailing, Wholesaling, and Logistics 549**

Retailing 549  
 Types of Retailers 550

**MARKETING MEMO** Innovative Retail Organizations 551

The Modern Retail Marketing Environment 554

**MARKETING INSIGHT** The Growth of Shopper Marketing 556  
 Marketing Decisions 557

**MARKETING MEMO** Helping Stores to Sell 562

**Private Labels** 563  
 Role of Private Labels 564  
 Private-Label Success Factors 564

**MARKETING INSIGHT** Manufacturer's Response to the Private-Label Threat 565

**Wholesaling** 565  
 Trends in Wholesaling 567

**Market Logistics** 567  
 Integrated Logistics Systems 568  
 Market-Logistics Objectives 569  
 Market-Logistics Decisions 570

**Summary** 573  
**Applications** 574

**MARKETING EXCELLENCE** Zara 574  
**MARKETING EXCELLENCE** Best Buy 576

---

**PART 7 Communicating Value 578**

---

**Chapter 19 Designing and Managing Integrated Marketing Communications 579**

The Role of Marketing Communications 580  
 The Changing Marketing Communications Environment 580

**MARKETING INSIGHT** Don't Touch That Remote 580

Marketing Communications Mix 581  
 How Do Marketing Communications Work? 583  
 The Communications Process Models 584

**Developing Effective Communications** 586  
 Identify the Target Audience 586  
 Set the Communications Objectives 587  
 Design the Communications 587  
 Select the Communications Channels 590

**MARKETING MEMO** Celebrity Endorsements as a Message Strategy 591

**MARKETING INSIGHT** Playing Tricks to Build a Brand 593

Establish the Total Marketing Communications Budget 594

**Selecting the Marketing Communications Mix 595**

- Characteristics of the Marketing Communications Mix 596
- Factors in Setting the Marketing Communications Mix 597
- Measuring Communication Results 599

**Managing the Integrated Marketing Communications Process 599**

- Coordinating Media 601
- Implementing IMC 601

**MARKETING MEMO** How Integrated Is Your IMC Program? 601

**Summary 602**

**Applications 603**

**MARKETING EXCELLENCE** Red Bull 603

**MARKETING EXCELLENCE** L'Oreal 604

---

**Chapter 20 Managing Mass Communications: Advertising, Sales Promotions, Events and Experiences, and Public Relations 607**

**Developing and Managing an Advertising Program 608**

- Setting the Advertising Objectives 609
- Deciding on the Advertising Budget 609
- Developing the Advertising Campaign 610

**MARKETING MEMO** Print Ad Evaluation Criteria 612

**MARKETING INSIGHT** Off-Air Ad Battles 614

- Choosing Media 615

**MARKETING INSIGHT** Playing Games with Brands 618

**MARKETING MEMO** Winning The Super Bowl of Advertising 619

- Evaluating Advertising Effectiveness 621

**Sales Promotion 622**

- Advertising Versus Promotion 622
- Major Decisions 623

**Events and Experiences 626**

- Events Objectives 626
- Major Sponsorship Decisions 627

**MARKETING MEMO** Measuring High-Performance Sponsorship Programs 628

- Creating Experiences 628

**Public Relations 629**

- Marketing Public Relations 629
- Major Decisions in Marketing PR 630

**Summary 631**

**Applications 632**

**MARKETING EXCELLENCE** Evian 632

**MARKETING EXCELLENCE** Gillette 634

---

**Chapter 21 Managing Digital Communications: Online, Social Media, and Mobile 637**

**Online Marketing 637**

- Advantages and Disadvantages of Online Marketing Communications 638
- Online Marketing Communication Options 639

**MARKETING MEMO** How to Maximize the Marketing Value of E-mails 642

**Social Media 642**

- Social Media Platforms 643
- Using Social Media 644

**Word of Mouth 645**

- Forms of Word of Mouth 646
- Creating Word-of-Mouth Buzz 646

**MARKETING MEMO** How to Start a Buzz Fire 648

**MARKETING INSIGHT** Tracking Online Buzz 649

- Measuring the Effects of Word of Mouth 650

**Mobile Marketing 650**

- The Scope of Mobile Marketing 650
- Developing Effective Mobile Marketing Programs 651
- Mobile Marketing across Markets 651

**Summary 652**

**Applications 653**

**MARKETING EXCELLENCE** Facebook 653

**MARKETING EXCELLENCE** Unilever (Axe and Dove) 654



---

**Chapter 22** Managing Personal Communications:  
Direct and Database Marketing and  
Personal Selling **657**

- Direct Marketing 657
  - The Benefits of Direct Marketing 658
  - Direct Mail 659
  - Catalog Marketing 660
  - Telemarketing 660
  - Other Media for Direct-Response Marketing 661
  - Public and Ethical Issues in Direct Marketing 661
- Customer Databases and Database Marketing 662
  - Customer Databases 662
  - Data Warehouses and Data Mining 662
  - The Downside of Database Marketing 664
- Designing the Sales Force 664
  - Sales Force Objectives and Strategy 666
  - Sales Force Structure 667
- MARKETING INSIGHT** Major Account Management 668
  - Sales Force Size 668
  - Sales Force Compensation 668
- Managing the Sales Force 669
  - Recruiting and Selecting Representatives 669
  - Training and Supervising Sales Representatives 669
  - Sales Rep Productivity 670
  - Motivating Sales Representatives 670
  - Evaluating Sales Representatives 671
- Principles of Personal Selling 673
  - The Six Steps 673
  - Relationship Marketing 674
- Summary 675**
- Applications 675**
- MARKETING EXCELLENCE** Progressive 676
- MARKETING EXCELLENCE** Victoria's Secret 677

---

**PART 8** Conducting Marketing  
Responsibly for Long-term  
Success **678**

---

**Chapter 23** Managing a Holistic Marketing  
Organization for the Long Run **679**

- Trends in Marketing Practices 679
- Internal Marketing 680

- MARKETING MEMO** Characteristics of Company Departments That Are Truly Customer Driven 681
  - Organizing the Marketing Department 682
  - Relationships with Other Departments 684
  - Building a Creative Marketing Organization 684
- MARKETING INSIGHT** The Marketing CEO 685
- Socially Responsible Marketing 685**
  - Corporate Social Responsibility 686
- MARKETING INSIGHT** The Rise of Organic 689
  - Socially Responsible Business Models 690
  - Cause-Related Marketing 690
- MARKETING MEMO** Making a Difference: Top 10 Tips for Cause Branding 693
  - Social Marketing 694
- Marketing Implementation and Control 697
  - Marketing Implementation 697
  - Marketing Control 697
- The Future of Marketing 702
- MARKETING MEMO** Major Marketing Weaknesses 703
- Summary 705**
- Applications 705**
- MARKETING EXCELLENCE** Starbucks 706
- MARKETING EXCELLENCE** Virgin Group 707
- Appendix** Tools for Marketing Control **709**

- Appendix: Sonic Marketing Plan and Exercises A1**
- Endnotes E1**
- Glossary G1**
- Name Index I1**
- Company, Brand, and Organization Index I5**
- Subject Index I18**

# Preface

## What's New in the 15th Edition

The 15th edition of *Marketing Management* is a landmark entry in the long successful history of the market leader. With the 15th edition, great care was taken to provide an introductory guide to marketing management that truly reflects the modern realities of marketing. In doing so, classic concepts, guidelines, and examples were retained while new ones were added as appropriate. Three broad forces—globalization, technology, and social responsibility—were identified as critical to the success of modern marketing programs. These three topics are evident all through the text.

As has been the case for a number of editions now, the overriding goal of the revision for the 15th edition of *Marketing Management* was to create as comprehensive, current, and engaging a MBA marketing textbook as possible. Where appropriate, new material was added, old material was updated, and no longer relevant or necessary material was deleted.

Even though marketing is changing in many significant ways these days, many core elements remain, and we feel strongly that a balanced approach of classic and contemporary approaches and perspectives is the way to go. *Marketing Management*, 15th edition, allows those instructors who have used the 14th edition to build on what they have learned and done while at the same time offering a text that is unsurpassed in breadth, depth, and relevance for students experiencing *Marketing Management* for the first time.

The successful across-chapter reorganization into eight parts that began with the 12th edition of *Marketing Management* has largely been preserved, although several adjustments have been made to improve student understanding, as described below. Many of the favorably received within-chapter features that have been introduced through the years, such as topical chapter openers, in-text boxes highlighting noteworthy companies or issues, and the Marketing Insight and Marketing Memo boxes that provide in-depth conceptual and practical commentary, have been retained.

Significant changes to the 15th edition include:

- Brand-new opening vignettes for each chapter set the stage for the chapter material to follow. By covering topical brands or companies, the vignettes are great classroom discussion starters.
- Almost half of the in-text boxes are new. These boxes provide vivid illustrations of chapter concepts using actual companies and situations. The boxes cover a variety of products, services, and markets, and many have accompanying illustrations in the form of ads or product shots.
- Each end-of-chapter section now includes two expanded Marketing Excellence mini-cases highlighting innovative, insightful marketing accomplishments by leading organizations. Each case includes questions that promote classroom discussion and student analysis.
- The global chapter (8, previously Chapter 21) has been moved into Part 3 on Connecting with Customers and the new products chapter (15, previously Chapter 20) has been moved into Part 5 on Creating Value. The positioning and brand chapters (10 and 11) have been switched to allow for the conventional STP sequencing. These moves permit richer coverage of the topics and better align with many instructors' teaching strategy.
- A new chapter (21) titled Managing Digital Communications: Online, Social Media, and Mobile has been added to better highlight that important topic. Significant attention is paid throughout the text to what a new section in Chapter 1 calls "the digital revolution."
- The concluding chapter (23) has been retitled "Managing a Holistic Marketing Organization for the Long Run" and addresses corporate social responsibility, business ethics, and sustainability, among other topics.
- Chapter 12 (previously Chapter 11) has been retitled "Addressing Competition and Driving Growth" to acknowledge the importance of growth to an organization.

## What Is *Marketing Management* All About?

*Marketing Management* is the leading marketing text because its content and organization consistently reflect changes in marketing theory and practice. The very first edition of *Marketing Management*, published in 1967, introduced the concept that companies must be customer and market driven. But there was little mention of

what have now become fundamental topics such as segmentation, targeting, and positioning. Concepts such as brand equity, customer value analysis, database marketing, e-commerce, value networks, hybrid channels, supply chain management, and integrated marketing communications were not even part of the marketing vocabulary then. *Marketing Management* continues to reflect the changes in the marketing discipline over the past almost 50 years.

Firms now sell goods and services through a variety of direct and indirect channels. Mass advertising is not nearly as effective as it was, so marketers are exploring new forms of communication, such as experiential, entertainment, and viral marketing. Customers are telling companies what types of product or services they want and when, where, and how they want to buy them. They are increasingly reporting to other consumers what they think of specific companies and products—using e-mail, blogs, podcasts, and other digital media to do so. Company messages are becoming a smaller fraction of the total “conversation” about products and services.

In response, companies have shifted gears from managing product portfolios to managing *customer* portfolios, compiling databases on individual customers so they can understand them better and construct individualized offerings and messages. They are doing less product and service standardization and more niching and customization. They are replacing monologues with customer dialogues. They are improving their methods of measuring customer profitability and customer lifetime value. They are intent on measuring the return on their marketing investment and its impact on shareholder value. They are also concerned with the ethical and social implications of their marketing decisions.

As companies change, so does their marketing organization. Marketing is no longer a company department charged with a limited number of tasks—it is a company-wide undertaking. It drives the company’s vision, mission, and strategic planning. Marketing includes decisions like whom the company wants as its customers, which of their needs to satisfy, what products and services to offer, what prices to set, what communications to send and receive, what channels of distribution to use, and what partnerships to develop. Marketing succeeds only when all departments work together to achieve goals: when engineering designs the right products; finance furnishes the required funds; purchasing buys high-quality materials; production makes high-quality products on time; and accounting measures the profitability of different customers, products, and areas.

To address all these different shifts, good marketers are practicing holistic marketing. *Holistic marketing* is the development, design, and implementation of marketing programs, processes, and activities that recognize the breadth and interdependencies of today’s marketing environment. Four key dimensions of holistic marketing are:

1. **Internal marketing**—ensuring everyone in the organization embraces appropriate marketing principles, especially senior management.
2. **Integrated marketing**—ensuring that multiple means of creating, delivering, and communicating value are employed and combined in the best way.
3. **Relationship marketing**—having rich, multifaceted relationships with customers, channel members, and other marketing partners.
4. **Performance marketing**—understanding returns to the business from marketing activities and programs, as well as addressing broader concerns and their legal, ethical, social, and environmental effects.

These four dimensions are woven throughout the book and at times spelled out explicitly. The text is organized to specifically address the following eight tasks that constitute modern marketing management in the 21st century:

1. Developing marketing strategies and plans
2. Capturing marketing insights
3. Connecting with customers
4. Building strong brands
5. Creating value
6. Delivering value
7. Communicating value
8. Conducting marketing responsibly for long-term success

# What Makes *Marketing Management* the Marketing Leader?

Marketing is of interest to everyone, whether they are marketing goods, services, properties, persons, places, events, information, ideas, or organizations. As it has maintained its respected position among students, educators, and businesspeople, *Marketing Management* has kept up to date and contemporary. Students (and instructors) feel that the book is talking directly to them in terms of both content and delivery.

*Marketing Management* owes its marketplace success to its ability to maximize three dimensions that characterize the best marketing texts—depth, breadth, and relevance—as measured by the following criteria:

- **Depth.** Does the book have solid academic grounding? Does it contain important theoretical concepts, models, and frameworks? Does it provide conceptual guidance to solve practical problems?
- **Breadth.** Does the book cover all the right topics? Does it provide the proper amount of emphasis on those topics?
- **Relevance.** Does the book engage the reader? Is it interesting to read? Does it have lots of compelling examples?

The 15th edition builds on the fundamental strengths of past editions that collectively distinguish it from all other marketing management texts:

- **Managerial orientation.** The book focuses on the major decisions that marketing managers and top management face in their efforts to harmonize the organization's objectives, capabilities, and resources with marketplace needs and opportunities.
- **Analytical approach.** *Marketing Management* presents conceptual tools and frameworks for analyzing recurring problems in marketing management. Cases and examples illustrate effective marketing principles, strategies, and practices.
- **Multidisciplinary perspective.** The book draws on the rich findings of various scientific disciplines—economics, behavioral science, management theory, and mathematics—for fundamental concepts and tools directly applicable to marketing challenges.
- **Universal applications.** The book applies strategic thinking to the complete spectrum of marketing: products, services, persons, places, information, ideas, and causes; consumer and business markets; profit and nonprofit organizations; domestic and foreign companies; small and large firms; manufacturing and intermediary businesses; and low- and high-tech industries.
- **Comprehensive and balanced coverage.** *Marketing Management* covers all the topics an informed marketing manager needs to understand to execute strategic, tactical, and administrative marketing.

## Instructor Resources

At the Instructor Resource Center, [www.pearsonglobaleditions.com/kotler](http://www.pearsonglobaleditions.com/kotler), instructors can easily register to gain access to a variety of instructor resources available with this text in downloadable format. If assistance is needed, our dedicated technical support team is ready to help with the media supplements that accompany this text. Visit <http://247.pearsoned.com> for answers to frequently asked questions and toll-free user support phone numbers.

The following supplements are available with this text:

- **Instructor's Resource Manual**
- **Test Bank**
- **TestGen® Computerized Test Bank**
- **PowerPoint Presentation**
- **Image Library**

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## **Philip Kotler**

S. C. Johnson Distinguished Professor of International Marketing,  
Kellogg School of Management,  
Northwestern University,  
Evanston, Illinois

## **Kevin Lane Keller**

E. B. Osborn Professor of Marketing,  
Tuck School of Business,  
Dartmouth College,  
Hanover, New Hampshire

Pearson would like to thank and acknowledge the following people for their work on the Global Edition:

### **Contributors**

Andrea Rumler, Berlin School of Economics and Law,  
Germany  
Abderrahman Hassi, Al Akhawayn University, Morocco  
Afifa Bouguerra, University of Toulouse, France  
Bouchra Hamelin, Al Akhawayn University, Morocco  
Abdelhamid Bennani Bouchiba, Al Akhawayn University,  
Morocco  
Muneeza Shoaib, Middlesex University Dubai, UAE

### **Reviewers**

Naila Aaijaz, International Professors Project  
Frances Ekwulungo, University of Westminster, UK  
Michael Gründ, Zurich University of Applied Sciences in  
Business Administration, Switzerland  
Mohamed Dahlan Ibrahim, Universiti Malaysia Kelantan,  
Malaysia  
Jawahitha Sarabdeen, University of Wollongong in Dubai,  
UAE



# Part 1 Understanding Marketing Management

## Chapter 1 Defining Marketing for the New Realities

## Chapter 2 Developing Marketing Strategies and Plans



In This Chapter, We Will Address the Following **Questions**

1. Why is marketing important? (p. 25)
2. What is the scope of marketing? (p. 27)
3. What are some core marketing concepts? (p. 31)
4. What forces are defining the new marketing realities? (p. 35)
5. What new capabilities have these forces given consumers and companies? (p. 38)
6. What does a holistic marketing philosophy include? (p. 42)
7. What tasks are necessary for successful marketing management? (p. 49)

Unilever is fundamentally changing how it is doing its marketing, including putting more emphasis on developing markets.

Source: Bloomberg via Getty Images

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# 1 Defining Marketing for the New Realities

**Formally and informally, people and organizations engage in a vast number of activities we can call marketing.** In the face of a digital revolution and other major changes in the business environment, good marketing today is both increasingly vital and radically new. Consider Unilever.<sup>1</sup>



*Under the leadership of ex-P&G marketing executive Paul Polman and marketing whiz Keith Weed, Unilever is steering in an aggressive new direction. Its new marketing model “Crafting Brands for Life” establishes social, economic, and product missions for each brand, including Dove, Ben & Jerry’s, Lifebuoy, and Knorr. Polman states, “I have a vision of all of our brands being a force for good, with each having over a billion fans or more to help drive change.” One part of the mission, for instance, is sustainability—specifically, to halve its ecological footprint while doubling revenues. To improve advertising and marketing communications, it aims to strike a balance between “magic” and “logic,” doubling marketing training expenditures and emphasizing ad research. To better understand the digital world, CMO Weed took 26 top marketing executives to Silicon Valley to visit Google, Facebook, and Hulu and led a similar group to visit Hollywood executives at Disney and Universal. Unilever has set its sights on developing and emerging (D&E) markets, hoping to grow 15 percent to 20 percent annually in China and to draw 70 percent to 75 percent of business from D&E markets by 2020. The company has also adopted “reverse innovation” by applying branding and packaging innovations from developing markets to recession-hit developed markets. In Spain, it now sells Surf detergent in five-wash packs. In Greece, it offers mashed potatoes and mayonnaise in small packages.*

**Good marketing is no accident.** It is both an art and a science, and it results from careful planning and execution using state-of-the-art tools and techniques. In this book, we describe how skillful marketers are updating classic practices and inventing new ones to find creative, practical solutions to new marketing realities. In the first chapter, we lay our foundation by reviewing important marketing concepts, tools, frameworks, and issues.

## The Value of Marketing

Finance, operations, accounting, and other business functions won’t really matter without sufficient demand for products and services so the firm can make a profit. In other words, there must be a top line for there to be a bottom line. Thus, financial success often depends on marketing ability. Marketing’s value extends to society as a whole. It has helped introduce new or enhanced products that ease or enrich people’s lives. Successful marketing builds demand for products and services, which, in turn, creates jobs. By contributing to the bottom line, successful marketing also allows firms to more fully engage in socially responsible activities.<sup>2</sup>

### MARKETING DECISION MAKING

CEOs recognize that marketing builds strong brands and a loyal customer base, intangible assets that contribute heavily to the value of a firm.<sup>3</sup> Many firms, even service and nonprofit, now have a chief marketing officer (CMO) to put marketing on a more equal footing with other C-level executives such as the chief financial officer (CFO) or chief information officer (CIO).<sup>4</sup>

In an Internet-fueled environment where consumers, competition, technology, and economic forces change rapidly and consequences quickly multiply, marketers must choose features, prices, and markets and decide how much to spend on advertising, sales, and online and mobile marketing. Meanwhile, the economic downturn that began globally in 2008 and the sluggish recovery since have brought budget cuts and intense pressure to make every marketing dollar count.

There is little margin for error in marketing. Just a short time ago, MySpace, Yahoo!, Blockbuster, and Barnes & Noble were admired leaders in their industries. What a difference a few years can make! Each of these brands has been completely overtaken by an upstart challenger—Facebook, Google, Netflix, and Amazon—and they now struggle, sometimes unsuccessfully, for mere survival. Firms must constantly move forward. At greatest risk are those that fail to carefully monitor their customers and competitors, continuously improve their value offerings and marketing strategies, or satisfy their employees, stockholders, suppliers, and channel partners in the process.

## WINNING MARKETING

Skillful marketing is a never-ending pursuit, but some businesses are adapting and thriving in these changing times. Consider American Express.<sup>5</sup>

**AMERICAN EXPRESS: SMALL BUSINESS SATURDAY** Launched in 2010 via radio and TV ads, social media, and PR, American Express's Small Business Saturday program encouraged people to shop at smaller, local retailers on the Saturday after Thanksgiving. Among businesses that participated, sales rose 28 percent. In 2012, American Express provided social media marketing kits, e-mail templates, and signage to help spread the word. More than 350 small business organizations supported the initiative, more than 3 million users "liked" the Small Business Saturday Facebook page, and 213,000 related tweets were posted on Twitter. President Obama tweeted, "Today, support small businesses in your community by shopping at your favorite store" and took his daughters to local bookstores. American Express cardholders got a \$25 rebate for shopping at local, independent stores on Small Business Saturday. The company reported a roughly 21 percent increase in transactions for both 2011 and 2012 due to the program.

Other top marketers are following suit. Using a Web-only campaign, BMW claimed a \$110 million revenue gain for its 1-series. More than 3 million people saw a five-video teaser campaign, and 20,000 gave their contact details. BMW also targeted influential bloggers and used feedback from social media as input to styling and sales forecasts.<sup>6</sup>

Even business-to-business firms are getting into the action. Corning has struggled transcending its reputation as sellers of Pyrex cookware—a business it sold more than a decade ago—to its current status as makers of highly engineered specialty glass and ceramic products. To expand the vision on Wall Street as a company with a rich portfolio, Corning created a YouTube video, "A Day Made of Glass...Made Possible by Corning." Unconventionally long but beautifully put together, within three weeks it attracted more than a million views. Much of the social conversation it created revolved around themes of glass, product toughness, and hope for the future—exactly what Corning wanted.<sup>7</sup>

American Express' Small Business Saturday has struck a chord with consumers, including TV celebrity Katie Couric.



Source: WireImage for American Express

# The Scope of Marketing

To be a marketer, you need to understand what marketing is, how it works, who does it, and what is marketed.

## WHAT IS MARKETING?

**Marketing** is about identifying and meeting human and social needs. One of the shortest good definitions of marketing is “meeting needs profitably.” When Google recognized that people needed to more effectively and efficiently access information on the Internet, it created a powerful search engine that organized and prioritized queries. When IKEA noticed that people wanted good furnishings at substantially lower prices, it created knock-down furniture. These two firms demonstrated marketing savvy and turned a private or social need into a profitable business opportunity.

The American Marketing Association offers the following formal definition: *Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.*<sup>8</sup> Coping with these exchange processes calls for a considerable amount of work and skill. *Marketing management* takes place when at least one party to a potential exchange thinks about the means of achieving desired responses from other parties. Thus, we see **marketing management** as *the art and science of choosing target markets and getting, keeping, and growing customers through creating, delivering, and communicating superior customer value.*

We can distinguish between a social and a managerial definition of marketing. A social definition shows the role marketing plays in society; for example, one marketer has said that marketing’s role is to “deliver a higher standard of living.” Here is a social definition that serves our purpose: *Marketing is a societal process by which individuals and groups obtain what they need and want through creating, offering, and freely exchanging products and services of value with others.* Cocreation of value among consumers and with businesses and the importance of value creation and sharing have become important themes in the development of modern marketing thought.<sup>9</sup>

Managers sometimes think of marketing as “the art of selling products,” but many people are surprised when they hear that selling is *not* the most important part of marketing! Selling is only the tip of the marketing iceberg. Peter Drucker, famed management theorist, put it this way:<sup>10</sup>

There will always, one can assume, be need for some selling. But the aim of marketing is to make selling superfluous. The aim of marketing is to know and understand the customer so well that the product or service fits him and sells itself. Ideally, marketing should result in a customer who is ready to buy. All that should be needed then is to make the product or service available.

When Nintendo designed its Wii game system, when Apple launched its iPad tablet computer, and when Toyota introduced its Prius hybrid automobile, these manufacturers were swamped with orders because they had designed the right product, based on careful marketing homework about consumers, competition, and all the external factors that affect cost and demand.

## WHAT IS MARKETED?

Marketers market 10 main types of entities: goods, services, events, experiences, persons, places, properties, organizations, information, and ideas. Let’s take a quick look at these categories.

**GOODS** Physical goods constitute the bulk of most countries’ production and marketing efforts. Each year, U.S. companies market billions of fresh, canned, bagged, and frozen food products and millions of cars, refrigerators, televisions, machines, and other mainstays of a modern economy.

**SERVICES** As economies advance, a growing proportion of their activities focuses on the production of services. The U.S. economy today produces a services-to-goods mix of roughly two-thirds to one-third.<sup>11</sup> Services include the work of airlines, hotels, car rental firms, barbers and beauticians, maintenance and repair people, and accountants, bankers, lawyers, engineers, doctors, software programmers, and management consultants. Many market offerings mix goods and services, such as a fast-food meal.

**EVENTS** Marketers promote time-based events, such as major trade shows, artistic performances, and company anniversaries. Global sporting events such as the Olympics and the World Cup are promoted aggressively to companies and fans. Local events include craft fairs, bookstore readings, and farmer’s markets.

**EXPERIENCES** By orchestrating several services and goods, a firm can create, stage, and market experiences. Walt Disney World’s Magic Kingdom lets customers visit a fairy kingdom, a pirate ship, or a haunted house.

The pageantry of the Olympics, shown here in Sochi, Russia, adds to its marketability.



Source: © McClatchy-Tribune Information Services/Alamy

Customized experiences include a week at a baseball camp with retired baseball greats, a four-day rock and roll fantasy camp, and a climb up Mount Everest.

**PERSONS** Artists, musicians, CEOs, physicians, high-profile lawyers and financiers, and other professionals often get help from marketers.<sup>12</sup> Many athletes and entertainers have done a masterful job of marketing themselves—NFL quarterback Peyton Manning, talk show veteran Oprah Winfrey, and rock and roll legends The Rolling Stones. Management consultant Tom Peters, himself a master at self-branding, has advised each person to become a “brand.”

**PLACES** Cities, states, regions, and whole nations compete to attract tourists, residents, factories, and company headquarters.<sup>13</sup> Place marketers include economic development specialists, real estate agents, commercial banks, local business associations, and advertising and public relations agencies. The Las Vegas Convention & Visitors Authority has met with much success with its provocative ad campaign “What Happens Here, Stays Here,” portraying Las Vegas as “an adult playground.”

**PROPERTIES** Properties are intangible rights of ownership to either real property (real estate) or financial property (stocks and bonds). They are bought and sold, and these exchanges require marketing. Real estate agents work for property owners or sellers, or they buy and sell residential or commercial real estate. Investment companies and banks market securities to both institutional and individual investors.

**ORGANIZATIONS** Museums, performing arts organizations, corporations, and nonprofits all use marketing to boost their public images and compete for audiences and funds. Some universities have created chief marketing officer (CMO) positions to better manage their school identity and image, via everything from admission brochures and Twitter feeds to brand strategy.<sup>14</sup>

Oprah Winfrey has built a personal brand worth billions which she has used across many lines of business.



Source: Chris Pizzello/Invision/AP

**INFORMATION** Information is essentially what books, schools, and universities produce, market, and distribute at a price to parents, students, and communities. Firms make business decisions using information supplied by organizations like Thomson Reuters: “We combine industry expertise with innovative technology to deliver critical information to leading decision makers in the financial, legal, tax and accounting, healthcare, science and media markets, powered by the world’s most trusted news organization.”<sup>15</sup>

**IDEAS** Every market offering includes a basic idea. Charles Revson of Revlon once observed: “In the factory we make cosmetics; in the drugstore we sell hope.” Products and services are platforms for delivering some idea or benefit. Social marketers promote such ideas as “Friends Don’t Let Friends Drive Drunk” and “A Mind Is a Terrible Thing to Waste.”

## WHO MARKETS?

**MARKETERS AND PROSPECTS** A **marketer** is someone who seeks a response—attention, a purchase, a vote, a donation—from another party, called the **prospect**. If two parties are seeking to sell something to each other, we call them both marketers.

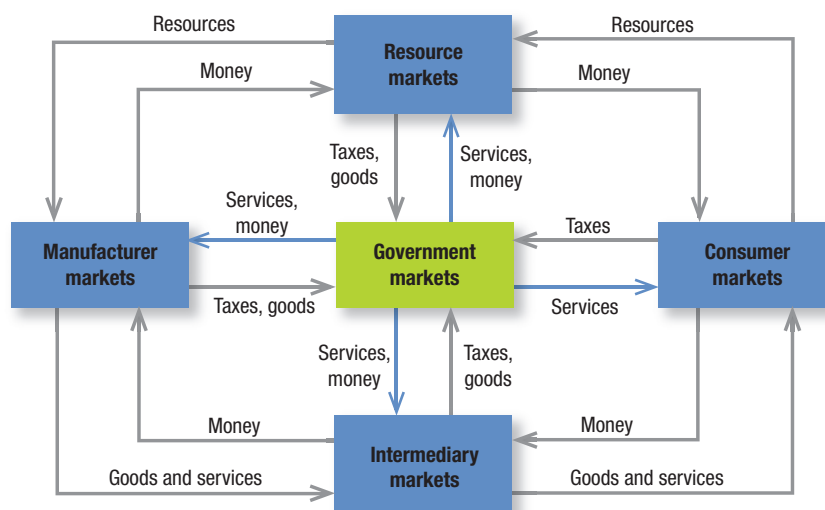
Marketers are skilled at stimulating demand for their products, but that’s a limited view of what they do. They also seek to influence the level, timing, and composition of demand to meet the organization’s objectives. Eight demand states are possible:

1. **Negative demand**—Consumers dislike the product and may even pay to avoid it.
2. **Nonexistent demand**—Consumers may be unaware of or uninterested in the product.
3. **Latent demand**—Consumers may share a strong need that cannot be satisfied by an existing product.
4. **Declining demand**—Consumers begin to buy the product less frequently or not at all.
5. **Irregular demand**—Consumer purchases vary on a seasonal, monthly, weekly, daily, or even hourly basis.
6. **Full demand**—Consumers are adequately buying all products put into the marketplace.
7. **Overfull demand**—More consumers would like to buy the product than can be satisfied.
8. **Unwholesome demand**—Consumers may be attracted to products that have undesirable social consequences.

In each case, marketers must identify the underlying cause(s) of the demand state and determine a plan of action to shift demand to a more desired state.

**MARKETS** Traditionally, a “market” was a physical place where buyers and sellers gathered to buy and sell goods. Economists describe a *market* as a collection of buyers and sellers who transact over a particular product or product class (such as the housing market or the grain market).

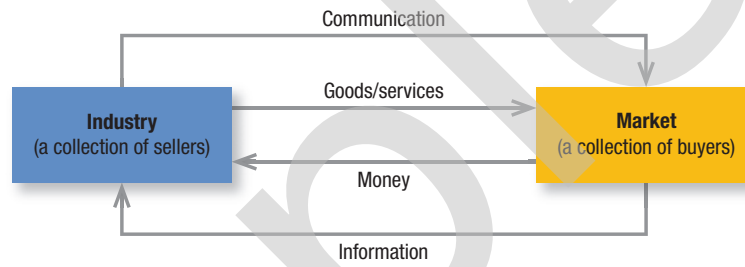
Five basic markets and their connecting flows are shown in Figure 1.1. Manufacturers go to resource markets (raw material markets, labor markets, money markets), buy resources and turn them into goods and services, and sell finished products to intermediaries, who sell them to consumers. Consumers sell their labor and receive money with which they pay for goods and services. The government collects tax revenues to buy goods from resource,



| Fig. 1.1 |

Structure of Flows in a Modern Exchange Economy

**| Fig. 1.2 |**  
**A Simple Marketing System**



manufacturer, and intermediary markets and uses these goods and services to provide public services. Each nation’s economy, and the global economy, consists of interacting sets of markets linked through exchange processes.

Marketers view sellers as the industry and use the term **market** to describe customer groups. They talk about need markets (the diet-seeking market), product markets (the shoe market), demographic markets (the “millennium” youth market), geographic markets (the Chinese market), or voter markets, labor markets, and donor markets.

Figure 1.2 shows how sellers and buyers are connected by four flows. Sellers send goods and services and communications such as ads and direct mail to the market; in return they receive money and information such as customer attitudes and sales data. The inner loop shows an exchange of money for goods and services; the outer loop shows an exchange of information.

**KEY CUSTOMER MARKETS** Consider the following key customer markets: consumer, business, global, and nonprofit.

**Consumer Markets** Companies selling mass consumer goods and services such as juices, cosmetics, athletic shoes, and air travel establish a strong brand image by developing a superior product or service, ensuring its availability, and backing it with engaging communications and reliable performance.

**Business Markets** Companies selling business goods and services often face well-informed professional buyers skilled at evaluating competitive offerings. Advertising and Web sites can play a role, but the sales force, the price, and the seller’s reputation may play a greater one.

**Global Markets** Companies in the global marketplace navigate cultural, language, legal, and political differences while deciding which countries to enter, how to enter each (as exporter, licensor, joint venture partner, contract manufacturer, or solo manufacturer), how to adapt product and service features to each country, how to set prices, and how to communicate in different cultures.

**Nonprofit and Governmental Markets** Companies selling to nonprofit organizations with limited purchasing power such as churches, universities, charitable organizations, and government agencies need to price carefully. Much government purchasing requires bids; buyers often focus on practical solutions and favor the lowest bid, other things equal.<sup>16</sup>

Governments are a key customer market for many companies.



Source: © Travel Pictures/Alamy

# Core Marketing Concepts

To understand the marketing function, we need to understand the following core set of concepts (see Table 1.1).

## NEEDS, WANTS, AND DEMANDS

*Needs* are the basic human requirements such as for air, food, water, clothing, and shelter. Humans also have strong needs for recreation, education, and entertainment. These needs become *wants* when directed to specific objects that might satisfy the need. A U.S. consumer needs food but may want a Chicago-style “deep-dish” pizza and a craft beer. A person in Afghanistan needs food but may want rice, lamb, and carrots. Our wants are shaped by our society.

*Demands* are wants for specific products backed by an ability to pay. Many people want a Mercedes; only a few can buy one. Companies must measure not only how many people want their product, but also how many are willing and able to buy it.

These distinctions shed light on the criticism that “marketers get people to buy things they don’t want.” Marketers do not create needs: Needs pre-exist marketers. Marketers might promote the idea that a Mercedes satisfies a person’s need for social status. They do not, however, create the need for social status.

Some customers have needs of which they are not fully conscious or cannot articulate. What does the customer mean in asking for a “powerful” lawn mower or a “peaceful” hotel? The marketer must probe further. We can distinguish five types of needs:

1. Stated needs (The customer wants an inexpensive car.)
2. Real needs (The customer wants a car whose operating cost, not initial price, is low.)
3. Unstated needs (The customer expects good service from the dealer.)
4. Delight needs (The customer would like the dealer to include an onboard GPS system.)
5. Secret needs (The customer wants friends to see him or her as a savvy consumer.)

Responding only to the stated need may shortchange the customer.<sup>17</sup> Consumers did not know much about tablet computers when they were first introduced, but Apple worked hard to shape consumer perceptions of them. To gain an edge, companies must help customers learn what they want.

## TARGET MARKETS, POSITIONING, AND SEGMENTATION

Not everyone likes the same cereal, restaurant, university, or movie. Marketers therefore identify distinct segments of buyers by identifying demographic, psychographic, and behavioral differences between them. They then decide which segment(s) present the greatest opportunities. For each of these *target markets*, the firm develops a *market*

**TABLE 1.1** Core Marketing Concepts

Needs, Wants, and Demands

Target Markets, Positioning, and Segmentation

Offerings and Brands

Marketing Channels

Paid, Owned, and Earned Media

Impressions and Engagement

Value and Satisfaction

Supply Chain

Competition

Marketing Environment



*offering* that it *positions* in target buyers' minds as delivering some key benefit(s). Volvo develops its cars for the buyer to whom safety is a major concern, positioning them as the safest a customer can buy. Porsche targets buyers who seek pleasure and excitement in driving and want to make a statement about their wheels.

## OFFERINGS AND BRANDS

Companies address customer needs by putting forth a **value proposition**, a set of benefits that satisfy those needs. The intangible value proposition is made physical by an *offering*, which can be a combination of products, services, information, and experiences.

A *brand* is an offering from a known source. A brand name such as Apple carries many different kinds of associations in people's minds that make up its image: creative, innovative, easy-to-use, fun, cool, iPod, iPhone, and iPad to name just a few. All companies strive to build a brand image with as many strong, favorable, and unique brand associations as possible.

## MARKETING CHANNELS

To reach a target market, the marketer uses three kinds of marketing channels. *Communication channels* deliver and receive messages from target buyers and include newspapers, magazines, radio, television, mail, telephone, smart phone, billboards, posters, fliers, CDs, audiotapes, and the Internet. Beyond these, firms communicate through the look of their retail stores and Web sites and other media, adding dialogue channels such as e-mail, blogs, text messages, and URLs to familiar monologue channels such as ads.

*Distribution channels* help display, sell, or deliver the physical product or service(s) to the buyer or user. These channels may be direct via the Internet, mail, or mobile phone or telephone or indirect with distributors, wholesalers, retailers, and agents as intermediaries.

To carry out transactions with potential buyers, the marketer also uses *service channels* that include warehouses, transportation companies, banks, and insurance companies. Marketers clearly face a design challenge in choosing the best mix of communication, distribution, and service channels for their offerings.

## PAID, OWNED, AND EARNED MEDIA

The rise of digital media gives marketers a host of new ways to interact with consumers and customers. We can group communication options into three categories.<sup>18</sup> *Paid media* include TV, magazine and display ads, paid search, and sponsorships, all of which allow marketers to show their ad or brand for a fee. *Owned media* are communication channels marketers actually own, like a company or brand brochure, Web site, blog, Facebook page, or Twitter account. *Earned media* are streams in which consumers, the press, or other outsiders voluntarily communicate something about the brand via word of mouth, buzz, or viral marketing methods. The emergence of earned media has allowed some companies, such as Chipotle, to reduce paid media expenditures.<sup>19</sup>

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**CHIPOTLE** One of the fastest-growing restaurant chains over the last decade, Chipotle is committed to fresh food. The company supports family farms and sources sustainable ingredients from local growers who behave responsibly toward animals and the environment. It has over 1,600 stores and over 1.7 million social media fans—yet spends next to nothing on traditional paid media. Instead Chipotle engages customers through Facebook, Twitter, and other social media via its grassroots “Food With Integrity” digital strategy which puts the focus on what it sells and where it comes from. As CMO Mark Crumpacker notes, “Typically, fast-food marketing is a game of trying to obscure the truth. The more people know about most fast-food companies, the less likely they’d want to be a customer.” YouTube videos with country legend Willie Nelson and indie rocker Karen O from the Yeah Yeah Yeahs musically made Chipotle’s case against processed foods and the industrialization of family farms.

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## IMPRESSIONS AND ENGAGEMENT

Marketers now think of three “screens” or means to reach consumers: TV, Internet, and mobile. Surprisingly, the rise of digital options did not initially depress the amount of TV viewing, in part because, as one Nielsen study found, three of five consumers use two screens at once.<sup>20</sup>



Chipotle found marketplace success with little paid media, focusing on social media to tell its story of “Food With Integrity.”

*Impressions*, which occur when consumers view a communication, are a useful metric for tracking the scope or breadth of a communication’s reach that can also be compared across all communication types. The downside is that impressions don’t provide any insight into the results of viewing the communication.

*Engagement* is the extent of a customer’s attention and active involvement with a communication. It reflects a much more active response than a mere impression and is more likely to create value for the firm. Some online measures of engagements are Facebook “likes,” Twitter tweets, comments on a blog or Web site, and sharing of video or other content. Engagement can extend to personal experiences that augment or transform a firm’s products and services.

## VALUE AND SATISFACTION

The buyer chooses the offerings he or she perceives to deliver the most *value*, the sum of the tangible and intangible benefits and costs. Value, a central marketing concept, is primarily a combination of quality, service, and price (qsp), called the *customer value triad*. Value perceptions increase with quality and service but decrease with price.

We can think of marketing as the identification, creation, communication, delivery, and monitoring of customer value. *Satisfaction* reflects a person’s judgment of a product’s perceived performance in relationship to expectations. If performance falls short of expectations, the customer is disappointed. If it matches expectations, the customer is satisfied. If it exceeds them, the customer is delighted.

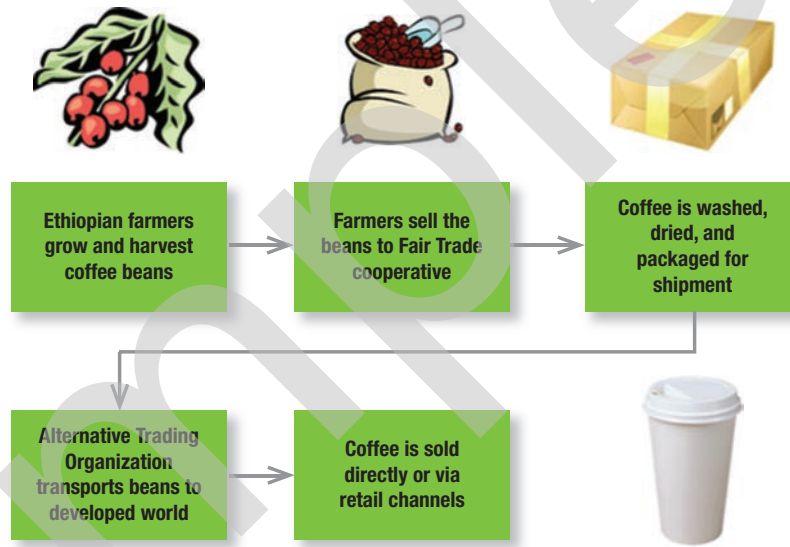
## SUPPLY CHAIN

The supply chain is a channel stretching from raw materials to components to finished products carried to final buyers. As Figure 1.3 shows, the supply chain for coffee may start with Ethiopian farmers who plant, tend, and pick the coffee beans and sell their harvest. If sold through a Fair Trade cooperative, the coffee is washed, dried, and packaged for shipment by an Alternative Trading Organization (ATO) that pays a minimum of \$1.26 a pound. The ATO transports the coffee to the developed world where it can sell it directly or via retail channels. Each company in the chain captures only a certain percentage of the total value generated by the supply chain’s value delivery system. When a company acquires competitors or expands upstream or downstream, its aim is to capture a higher percentage of supply chain value.

Problems with a supply chain can be damaging or even fatal for a business. When Johnson & Johnson ran into manufacturing problems with its consumer products unit (which makes Tylenol and other products), it hired away from Bayer AG a top executive known for her skill at fixing consumer and supply chain problems.<sup>21</sup>

| Fig. 1.3 |

## The Supply Chain for Coffee



## COMPETITION

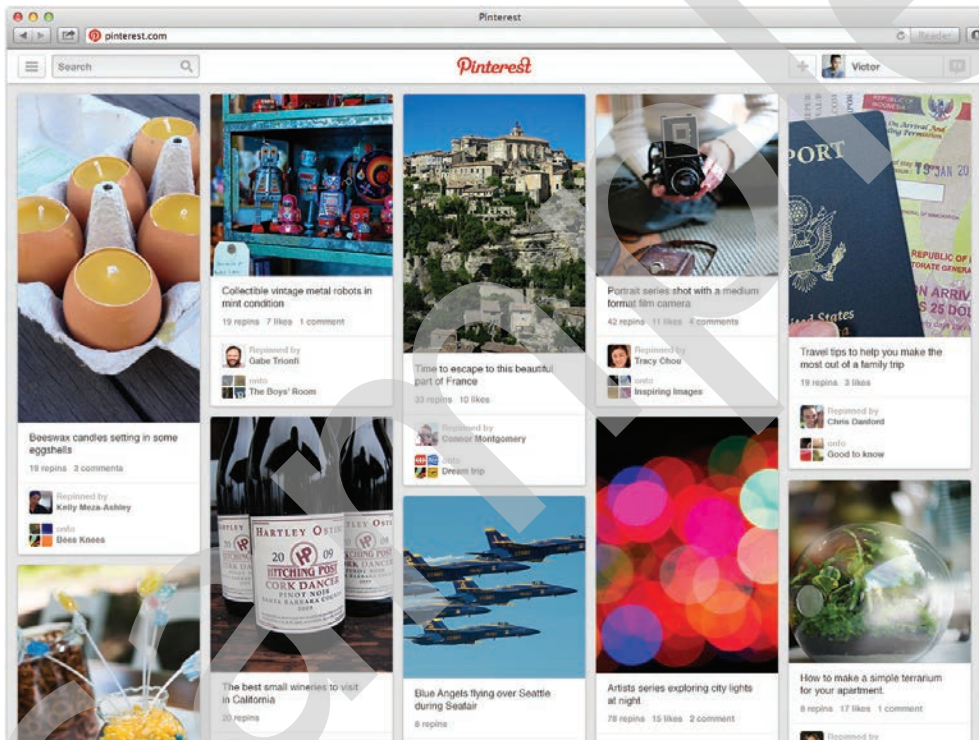
Competition includes all the actual and potential rival offerings and substitutes a buyer might consider. An automobile manufacturer can buy steel from U.S. Steel in the United States, from a foreign firm in Japan or Korea, or from a mini-mill such as Nucor at a cost savings, or it can buy aluminum parts from Alcoa to reduce the car's weight or engineered plastics from Saudi Basic Industries Corporation (SABIC) instead of steel. Clearly, U.S. Steel is more likely to be hurt by substitute products than by other integrated steel companies and would be defining its competition too narrowly if it didn't recognize this.

## MARKETING ENVIRONMENT

The marketing environment consists of the task environment and the broad environment. The *task environment* includes the actors engaged in producing, distributing, and promoting the offering. These are the company, suppliers, distributors, dealers, and target customers. In the supplier group are material suppliers and service suppliers, such as marketing research agencies, advertising agencies, banking and insurance companies, transportation companies, and telecommunications companies. Distributors and dealers include agents, brokers, manufacturer representatives, and others who facilitate finding and selling to customers.

The *broad environment* consists of six components: demographic environment, economic environment, social-cultural environment, natural environment, technological environment, and political-legal environment. Marketers must pay close attention to the trends and developments in these and adjust their marketing strategies as needed. New opportunities are constantly emerging that await the right marketing savvy and ingenuity. Consider Pinterest.<sup>22</sup>

**PINTEREST** One of the fastest-growing social media sites ever—it surpassed 10 million monthly unique U.S. visitors in January 2012 and *doubled* that just four months later—Pinterest is a visual bookmarking tool that lets users collect and share images of projects or products on digital scrapbooks or “pinboards.” Especially popular with women planning weddings, saving recipes, and designing kitchen upgrades, Pinterest has driven more traffic to websites in a month than Twitter, Google+, LinkedIn, and YouTube combined. Part of its appeal is its unique customizable grid of images. Pinterest's sweet spot is that users are often in a shopping mindset; one study showed almost 70% of online purchasers who found a product via Pinterest went on to buy, compared to 40% for Facebook. Brands from Dell and Mercedes-Benz to Peanut Butter & Co. and Zombie SAK are integrating the site into their social media strategies. Nevertheless, Pinterest is still exploring how to best monetize its business venture.



Pinterest has tapped into consumer desire to collect and share personally relevant images online.

## The New Marketing Realities

The marketplace is dramatically different from even 10 years ago, with new marketing behaviors, opportunities, and challenges emerging. In this book we focus on three transformative forces: technology, globalization, and social responsibility.

### TECHNOLOGY

The pace of change and the scale of technological achievement can be staggering. The number of mobile phones in India recently exceeded 500 million, Facebook's monthly users passed 1 billion, and more than half of African urban residents were able to access the Internet monthly.<sup>23</sup>

With the rapid rise of e-commerce, the mobile Internet, and Web penetration in emerging markets, the Boston Consulting Group believes brand marketers must enhance their "digital balance sheets."<sup>24</sup> Massive amounts of information and data about almost everything are now available to consumers and marketers. In fact, technology research specialists Gartner predicts that by 2017, CMOs will spend more time on information technology (IT) than chief information officers (CIOs). Aetna's CMO and CIO have already collaborated successfully for years, launching new products and services including iTriage, a popular health app for the iPhone. With iTriage, users can research ailments, find nearby physicians, and learn about prescribed medicines.<sup>25</sup>

Procter & Gamble (P&G) is determined to stay ahead of technology trends.<sup>26</sup>

**P&G** P&G uses the latest Web-based tools in all 80 countries where it sells products: ubiquitous high-speed networking, data visualization, and high-speed analysis of multiple information streams. In 40 locations worldwide, a massive business sphere can display real-time market share, profits, and prices by country, region, brand, and product. Tide laundry detergent has a dedicated "news desk" that monitors social media chatter and joins in when relevant. When Tide was used to clean up a nasty fuel spill in a NASCAR race, the brand ran social media ads with real news footage within 72 hours. P&G looks at a wide range of technology applications. One pilot study showed that field salespeople increased revenue 1.5 percent merely by using iPads to show store customers the layouts of different floor displays.

When Tide was used to clean a fuel spill at a NASCAR, P&G quickly spread the word on social media.



Source: Getty Images for NASCAR

The old credo “information is power” is giving way to the new idea that “sharing information is power.”<sup>27</sup> Software giant SAP’s online community numbers more than 2 million customers, partners, and others. Once a year, 100 are chosen to contribute ideas to product development.<sup>28</sup>

At the other end of the size spectrum, by running Facebook ads offering a free cut, shampoo, and hot towel treatment to new customers in exchange for name, phone number, e-mail address, and preferred social network, The Gent’s Place barbershop in Frisco, TX, has picked up 5,000 clients. Its average marketing cost for each was \$10.13, which it quickly recoups from repeat purchases.<sup>29</sup>

Even traditional marketing activities are profoundly affected by technology. To improve sales force effectiveness, drug maker Roche decided to issue iPads to its entire sales team. Though the company had a sophisticated customer relationship management (CRM) software system before, it still depended on sales reps to accurately input data in a timely fashion, which unfortunately did not always happen. With iPads, however, sales teams can do real-time data entry, improving the quality of the data entered while freeing up time for other tasks.<sup>30</sup>

## GLOBALIZATION

The world has become a smaller place. New transportation, shipping, and communication technologies have made it easier for us to know the rest of the world, to travel, to buy and sell anywhere. By 2025, annual consumption in emerging markets will total \$30 trillion and contribute more than 70 percent of global GDP growth.<sup>31</sup> A staggering 56 percent of global financial services consumption is forecast to come from emerging markets by 2050, up from 18 percent in 2010.

Demographic trends favor developing markets such as India, Pakistan, and Egypt, with populations whose median age is below 25. In terms of growth of the middle class, defined as earning more than \$3,000 per year, the Philippines, China, and Peru are the three fastest-growing countries.<sup>32</sup>

Globalization has made countries increasingly multicultural. U.S. minorities have much economic clout, and their buying power is growing faster than that of the general population. According to the University of Georgia’s Terry College of Business minority buying report, the combined buying power of U.S. racial minorities (African Americans, Asians, and Native Americans) is projected to rise from \$1.6 trillion in 2010 to \$2.1 trillion in 2015, accounting for 15 percent of the nation’s total. The buying power of U.S. Hispanics will rise from \$1 trillion in 2010 to \$1.5 trillion in 2015, nearly 11 percent of the nation’s total. One survey found that 87 percent of companies planned to increase or maintain multicultural media budgets.<sup>33</sup>

Globalization changes innovation and product development as companies take ideas and lessons from one country and apply them to another. After years of little success with its premium ultrasound scanners in the Chinese market, GE successfully developed a portable, ultra-low-cost version that addressed the country’s unique market needs. Later, it began to successfully sell the product throughout the developed world for use in ambulances and operating rooms where existing models were too big.<sup>34</sup>

## SOCIAL RESPONSIBILITY

Poverty, pollution, water shortages, climate change, wars, and wealth concentration demand our attention. The private sector is taking some responsibility for improving living conditions, and firms all over the world have elevated the role of corporate social responsibility.

Source: Photographer: Morad Bouchakour. Courtesy of General Electric Company.



Product introduced into developing markets, such as GE's portable ultrasound scanner, are finding success in developed markets too.

Because marketing's effects extend to society as a whole, marketers must consider the ethical, environmental, legal, and social context of their activities.<sup>35</sup> "Marketing Insight: Getting to Marketing 3.0" describes how companies need to change to do that.

The organization's task is thus to determine the needs, wants, and interests of target markets and satisfy them more effectively and efficiently than competitors while preserving or enhancing consumers' and society's long-term well-being.

## marketing insight

### Getting to Marketing 3.0

Philip Kotler, Hermawan Kartajaya, and Iwan Setiawan believe today's customers want marketers to treat them as whole human beings and acknowledge that their needs extend beyond pure consumerism. Successful marketing is thus distinguished by its human or emotional element. A third wave of thinking, values-driven and heralded as "Marketing 3.0," has moved us beyond the product-centric and consumer-centric models of the past, these authors say. Its three central trends are increased consumer participation and collaborative marketing, globalization, and the rise of a creative society.

- We live with sustained technological development—low-cost Internet, cheap computers and mobile phones, open source services and systems. Expressive and collaborative social media, such as Facebook and Wikipedia, have changed the way marketers operate and interact with consumers.

- Culturally relevant brands can have far-reaching effects. A cultural brand might position itself as a national or local alternative to a global brand with poor environmental standards, for instance.
- Creative people are increasingly the backbone of developed economies. Marketing can now help companies tap into creativity and spirituality by instilling marketing values in corporate culture, vision, and mission.

These authors believe the future of marketing will be horizontal: consumer-to-consumer. They feel the recent economic downturn has not fostered trust in the marketplace and that customers now increasingly turn to one another for credible advice and information when selecting products.

**Sources:** Philip Kotler, Hermawan Kartajaya, and Iwan Setiawan, *Marketing 3.0: From Products to Customers to the Human Spirit* (Hoboken, NJ: Wiley, 2010); Michael Krauss, "Evolution of an Academic: Kotler on Marketing 3.0," *Marketing News*, January 30, 2011; Vivek Kaul, "Beyond Advertising: Philip Kotler Remains One of the Most Influential Marketing Thinkers," *The Economic Times*, February 29, 2012. For more stimulating related ideas, see also Jim Stengel, *Grow: How Ideas Power Growth and Profit at the World's Greatest Companies* (New York: Crown, 2011).

As goods become more commoditized and consumers grow more socially conscious, some companies—including The Body Shop, Timberland, and Patagonia—incorporate social responsibility as a way to differentiate themselves from competitors, build consumer preference, and achieve notable sales and profit gains.<sup>36</sup>

## A Dramatically Changed Marketplace

These three forces—technology, globalization, and social responsibility—have dramatically changed the marketplace, bringing consumers *and* companies new capabilities. The marketplace is also being transformed by changes in channel structure and heightened competition.

### NEW CONSUMER CAPABILITIES

Social media is an explosive worldwide phenomenon. In Germany, the percentage of consumers over 65 accessing the Internet increased from 24 percent to 33 percent from 2011 to 2012; most belonged to a social media service. The number of Germans browsing the Web wirelessly increased to 29 million in 2012 and was expected to hit 60 million in 2016. More than 10 percent of Germans were using tablets to access the Internet in 2012. Almost two-thirds of German companies surveyed in 2012 reported positive payback to their social media activities (Facebook, Twitter, social media newsrooms, customer feedback communities).<sup>37</sup>

Empowerment is not just about technology, though. Consumers are willing to move to another brand if they think they are not being treated right or do not like what they are seeing, as Progressive Insurance found out.<sup>38</sup>

**PROGRESSIVE INSURANCE** Kate Fisher, a Progressive customer, was killed by an underinsured driver who ran a red light. Her family felt they had to sue the driver for negligence to prompt Progressive to make up what the driver could not pay. Matt Fisher, Kate's brother, was furious when Progressive actively participated in the negligent driver's legal defense. His Tumblr post, "My Sister Paid Progressive Insurance to Defend Her Killer in Court," was picked up by media outlets and sparked public outrage on Progressive's Facebook and Twitter pages. More than 1,000 customers reported dropping Progressive, and many more said they would not do business with the company. Although Progressive felt it had defensible business reasons for its actions, critics were enraged by its awkward responses, like: "We fully investigated this claim and relevant background and feel we properly handled the claim within our contractual obligations." After a few tumultuous days, Progressive reportedly settled with the Fishers for tens of thousands of dollars more than the \$76,000 they had sought.

Expanded information, communication, and mobility enable customers to make better choices and share their preferences and opinions with others around the world. Table 1.2 summarizes some of the new consumer capabilities we outline next.

- **Consumers can use the Internet as a powerful information and purchasing aid.** From the home, office, or mobile phone, they can compare product prices and features, consult user reviews, and order goods online

**TABLE 1.2** New Consumer Capabilities

Can use the Internet as a powerful information and purchasing aid
Can search, communicate, and purchase on the move
Can tap into social media to share opinions and express loyalty
Can actively interact with companies
Can reject marketing they find inappropriate

from anywhere in the world 24 hours a day, seven days a week, bypassing limited local offerings and realizing significant price savings. They can also engage in “showrooming”: comparing products in stores but buying online.<sup>39</sup> Because consumers and other constituents can in fact track down virtually any kind of company information, firms now realize that transparency in corporate words and actions is of paramount importance.

- **Consumers can search, communicate, and purchase on the move.** Consumers increasingly integrate smart phones and tablets into their daily lives. One study found the majority of European smart phone owners use their devices to research products and make purchases.<sup>40</sup> There is one cell phone for every two people on the planet—and 10 times more cell phones are produced globally each day than babies are born. Telecommunications is one of the world’s trillion-dollar industries, along with tourism, military, food, and automobiles.<sup>41</sup>
- **Consumers can tap into social media to share opinions and express loyalty.** Personal connections and user-generated content thrive on social media such as Facebook, Flickr, Wikipedia, and YouTube. Sites like Dogster for dog lovers, TripAdvisor for travelers, and Moterus for bikers bring together consumers with a common interest. At CarSpace.com, auto enthusiasts talk about chrome rims, the latest BMW model, and where to find a great local mechanic.
- **Consumers can actively interact with companies.** Consumers see their favorite companies as workshops from which to draw out the offerings they want. By opting in or out of lists, they can receive marketing and sales-related communications, discounts, coupons, and other special deals. With smart phones, they can scan barcodes and QR (Quick Response) codes to access a brand’s Web site and other information.<sup>42</sup>
- **Consumers can reject marketing they find inappropriate.** Some customers today may see fewer product differences and feel less brand loyal. Others may become more price- and quality-sensitive in their search for value. Almost two-thirds of consumers in one survey reported that they disliked advertising.<sup>43</sup> For these and other reasons, consumers can be less tolerant about undesired marketing. They can choose to screen out online messages, skip commercials with their DVRs, and avoid marketing appeals through the mail or over the phone.

## NEW COMPANY CAPABILITIES

At the same time, globalization, social responsibility, and technology have also generated a new set of capabilities to help companies cope and respond (see Table 1.3).

- **Companies can use the Internet as a powerful information and sales channel, including for individually differentiated goods.** A Web site can list products and services, history, business philosophy, job opportunities, and other information of interest to consumers worldwide. Solo Cup marketers note that linking their storefronts to their Web site and Facebook page makes it easier for consumers to buy Solo paper cups and plates while engaging with the brand online.<sup>44</sup> Thanks to advances in factory customization, computer technology, and database marketing software, companies can allow customers to buy M&M candies with their names on

**TABLE 1.3** New Company Capabilities

Can use the Internet as a powerful information and sales channel, including for individually differentiated goods
Can collect fuller and richer information about markets, customers, prospects, and competitors
Can reach customers quickly and efficiently via social media and mobile marketing, sending targeted ads, coupons, and information
Can improve purchasing, recruiting, training, and internal and external communications
Can improve cost efficiency



Many different products, such as M&Ms, can now be customized by consumers.



them, Wheaties boxes or Jones soda cans with their picture on the front, and Heinz ketchup bottles with customized messages.<sup>45</sup>

- **Companies can collect fuller and richer information about markets, customers, prospects, and competitors.** Marketers can conduct fresh marketing research by using the Internet to arrange focus groups, send out questionnaires, and gather primary data in several other ways. They can assemble information about individual customers' purchases, preferences, demographics, and profitability. The drugstore chain CVS uses loyalty-card data to better understand what consumers purchase, the frequency of store visits, and other buying preferences. Its ExtraCare program supports 69 million shoppers in more than 7,300 stores. Eighty-two percent of CVS's front store (non-pharmacy) sales go through the ExtraCare program.<sup>46</sup>
- **Companies can reach consumers quickly and efficiently via social media and mobile marketing, sending targeted ads, coupons, and information.** GPS technology can pinpoint consumers' exact location, letting marketers send them messages at the mall with wish-list reminders and coupons or offers good only that day. Location-based advertising is attractive because it reaches consumers closer to the point of sale. Social media and buzz are also powerful. Over a two-year period, Dell took in more than \$2 million in U.S. revenue from coupons provided through Twitter and another \$1 million from people who started at Twitter and bought a new computer on Dell's Web site. By mid-2012, the @DellOutlet Twitter account had more than 1.6 million followers.<sup>47</sup> Word-of-mouth marketing agency BzzAgent recruited 600,000 consumers who voluntarily join promotional programs for products and services they deem worth talking about.
- **Companies can improve purchasing, recruiting, training, and internal and external communications.** Firms can recruit new employees online, and many have Internet training products for their employees, dealers, and agents. Blogging has waned as companies embrace social media. "We want to be where our customers are," said Bank of America after dropping its blog in favor of Facebook and Twitter.<sup>48</sup> Farmers Insurance uses specialized software to help its 15,000 agents nationwide maintain their own Facebook pages.<sup>49</sup> Via intranets and databases, employees can query one another, seek advice, and exchange information. Seeking a single online employee portal that transcended business units, General Motors launched a platform called mySocrates in 2006 to carry announcements, news, links, and historical information. GM credits the portal with \$17.4 million in cost savings to date.<sup>50</sup> Popular hybrid Twitter/Facebook-type products designed especially for business employees have been introduced by Salesforce.com, IBM, and several start-ups.<sup>51</sup>
- **Companies can improve their cost efficiency.** Corporate buyers can achieve substantial savings by using the Internet to compare sellers' prices and purchase materials at auction or by posting their own terms in reverse auctions. Companies can improve logistics and operations to reap substantial cost savings while improving accuracy and service quality. Small businesses can especially unleash the power of the Internet. Physicians operating a small practice can use Facebook-like services such as Doximity to connect with referring physicians and specialists.<sup>52</sup>

## CHANGING CHANNELS

One of the reasons consumers have more choices is that channels of distribution have changed as a result of retail transformation and disintermediation.

- **Retail transformation.** Store-based retailers face competition from catalog houses; direct-mail firms; newspaper, magazine, and TV direct-to-customer ads; home shopping TV; and e-commerce. In response, entrepreneurial retailers are building entertainment into their stores with coffee bars, demonstrations, and performances, marketing an “experience” rather than a product assortment.
- **Disintermediation.** Early dot-coms such as Amazon.com, E\*TRADE, and others successfully created *disintermediation* in the delivery of products and services by intervening in the traditional flow of goods. In response, traditional companies engaged in *reintermediation* and became “brick-and-click” retailers, adding online services to their offerings. Some with plentiful resources and established brand names became stronger contenders than pure-click firms.

## HEIGHTENED COMPETITION

While globalization has created intense competition among domestic and foreign brands, the rise of private labels and mega-brands and a trend toward deregulation and privatization have also increased competition.

- **Private labels.** Brand manufacturers are further buffeted by powerful retailers that market their own store brands, increasingly indistinguishable from any other type of brand.
- **Mega-brands.** Many strong brands have become mega-brands and extended into related product categories, including new opportunities at the intersection of two or more industries. Computing, telecommunications, and consumer electronics are converging, with Apple and Samsung releasing a stream of state-of-the-art devices from MP3 players to LCD TVs to fully loaded smart phones.
- **Deregulation.** Many countries have deregulated industries to create greater competition and growth opportunities. In the United States, laws restricting financial services, telecommunications, and electric utilities have all been loosened in the spirit of greater competition.
- **Privatization.** Many countries have converted public companies to private ownership and management to increase their efficiency. The telecommunications industry has seen much privatization in countries such as Australia, France, Germany, Italy, Turkey, and Japan.<sup>53</sup>

## Marketing in Practice

Given the new marketing realities, organizations are challenging their marketers to find the best balance of old and new and to provide demonstrable evidence of success. “Marketing Memo: Reinventing Marketing at Coca-Cola” describes some of the many different ways that that top marketing organization has changed.

### MARKETING BALANCE

Companies must always move forward, innovating products and services, staying in touch with customer needs, and seeking new advantages rather than relying on past strengths. India’s Hindustan Unilever asks all staff members—not just marketers—to obtain a “consumer license” to work on its brands, which requires spending 50 hours of face time with shoppers. As one senior executive noted, “Our consumers are moving faster than marketers do; whether in terms of rural or urban changes or the way they consume media and entertainment.”<sup>54</sup>

Moving forward especially means incorporating the Internet and digital efforts into marketing plans. Marketers must balance increased spending on search advertising, social media, e-mails, and text messages with appropriate spending on traditional marketing communications. But they must do so in tough economic times, when accountability has become a top priority and returns on investment are expected from every marketing activity. The ideal is retaining winning practices from the past while adding fresh approaches that reflect the new marketing realities.<sup>55</sup>



Coca-Cola reinforces its message of happiness with special promotional “Hug Me” vending machines which dispense free product.

## marketing memo

### Reinventing Marketing at Coca-Cola

Coca-Cola is fundamentally changing the way it does marketing, primarily by adding a strong digital component to its traditional marketing tools. The new model is based on moving consumers from *impressions* to *expressions* to *conversations* to *transactions*.

Coca-Cola defines consumer expressions as any level of engagement with brand content: a comment, “like,” or share on Facebook, a Tweet, or an uploaded photo or video. Coca-Cola strives to put strongly sharable pieces of communications online that will generate impressions but also lead to expressions from consumers who join or extend the communication storyline and ultimately buy the product.

These communications focus on the core themes of “happiness” and “optimism” that define the brand’s positioning. One successful application is the video of the “Hug Me” vending machine in Singapore that dispensed cans of Coke when people put their arms around it and hugged it. Within a week, the video generated 112 million impressions.

Coca-Cola actively experiments, allocating 70 percent of its budget to activities it knows will work, 20 percent to improving those activities, and 10 percent to experimentation. The company accepts that experiments can fail but believes in taking chances to learn and develop better solutions. Even in its traditional advertising and promotion, it looks for innovation.

For instance, Coca-Cola places much importance on cultural leadership and causes that benefit others. The mission of its Artic Home project is to protect the habitat of polar bears—who have starred in animated form in its holiday ads for years. Committing \$3 million to the World Wildlife Fund, Coca-Cola drew attention to the project by turning its traditional red cans white.

**Sources:** Joe Tripodi, “Coca-Cola Marketing Shifts from Impressions to Expressions,” *Harvard Business Review*, HBR Blog Network, April 27, 2011; Tim Nudd, “Coca-Cola Joins the Revolution in World Where the Mob Rules,” *Adweek*, June 19, 2012; Surajeet Das Gupta and Vivea Susan Pinto, “Q&A: Joseph Tripodi,” *Business Standard*, November 3, 2011; “Coca-Cola Sets Facebook Record,” [www.warc.com](http://www.warc.com), September 6, 2012.

## MARKETING ACCOUNTABILITY

Marketers are increasingly asked to justify their investments in financial and profitability terms, as well as in terms of building the brand and growing the customer base. Organizations recognize that much of their market value comes from intangible assets, particularly brands, customer base, employees, distributor and supplier relations, and intellectual capital. They are thus applying more metrics—brand equity, customer lifetime value, return on marketing investment (ROMI)—to understand and measure their marketing and business performance and a broader variety of financial measures to assess the direct and indirect value their marketing efforts create.

## MARKETING IN THE ORGANIZATION

As the late David Packard of Hewlett-Packard observed, “Marketing is far too important to leave to the marketing department.” Increasingly, marketing is *not* done only by the marketing department; every employee has an impact on the customer. Marketers now must properly manage all possible touch points: store layouts, package designs, product functions, employee training, and shipping and logistics. To create a strong marketing organization, marketers must think like executives in other departments, and executives in other departments must think more like marketers. Interdepartmental teamwork that includes marketers is needed to manage key processes like production innovation, new-business development, customer acquisition and retention, and order fulfillment.

# Company Orientation toward the Marketplace

Given these new marketing realities, what philosophy should guide a company’s marketing efforts? Let’s first review the evolution of marketing philosophies.

## THE PRODUCTION CONCEPT

The **production concept** is one of the oldest concepts in business. It holds that consumers prefer products that are widely available and inexpensive. Managers of production-oriented businesses concentrate on achieving high production efficiency, low costs, and mass distribution. This orientation has made sense in developing countries such

as China, where the largest PC manufacturer, Legend (principal owner of Lenovo Group), and domestic appliances giant Haier have taken advantage of the country's huge and inexpensive labor pool to dominate the market. Marketers also use the production concept when they want to expand the market.

## THE PRODUCT CONCEPT

The **product concept** proposes that consumers favor products offering the most quality, performance, or innovative features. However, managers are sometimes caught in a love affair with their products. They might commit the “better-mousetrap” fallacy, believing a better product will by itself lead people to beat a path to their door. As many start-ups have learned the hard way, a new or improved product will not necessarily be successful unless it's priced, distributed, advertised, and sold properly.

## THE SELLING CONCEPT

The **selling concept** holds that consumers and businesses, if left alone, won't buy enough of the organization's products. It is practiced most aggressively with unsought goods—goods buyers don't normally think of buying such as insurance and cemetery plots—and when firms with overcapacity aim to sell what they make, rather than make what the market wants. Marketing based on hard selling is risky. It assumes customers coaxed into buying a product not only won't return or bad-mouth it or complain to consumer organizations but might even buy it again.

## THE MARKETING CONCEPT

The **marketing concept** emerged in the mid-1950s as a customer-centered, sense-and-respond philosophy. The job is to find not the right customers for your products, but the right products for your customers. Dell doesn't prepare a PC or laptop for its target market. Rather, it provides product platforms on which each person customizes the features he or she desires in the machine.

The marketing concept holds that the key to achieving organizational goals is being more effective than competitors in creating, delivering, and communicating superior customer value to your target markets. Harvard's Theodore Levitt drew a perceptive contrast between the selling and marketing concepts:<sup>56</sup>

Selling focuses on the needs of the seller; marketing on the needs of the buyer. Selling is preoccupied with the seller's need to convert his product into cash; marketing with the idea of satisfying the needs of the customer by means of the product and the whole cluster of things associated with creating, delivering, and finally consuming it.

## THE HOLISTIC MARKETING CONCEPT

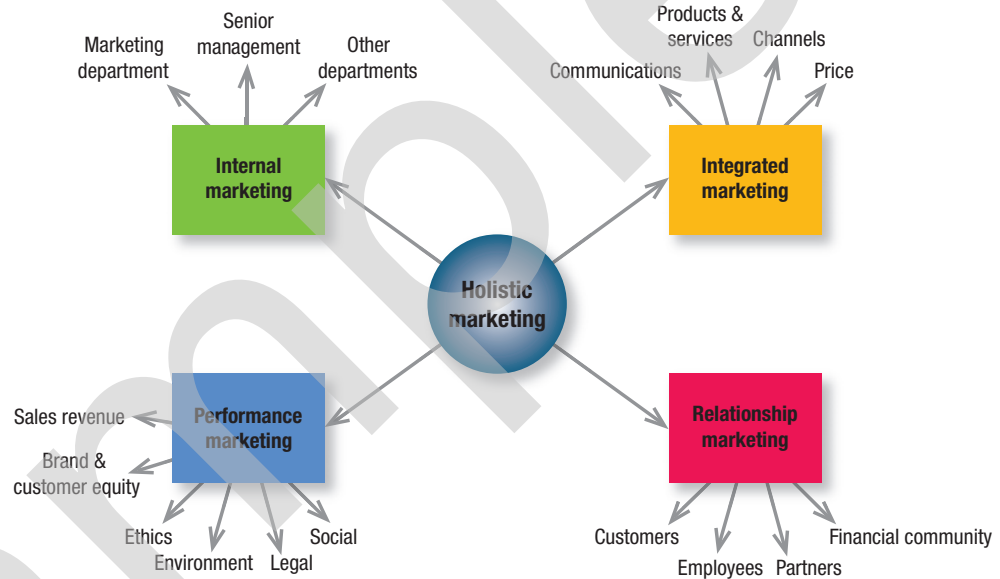
Without question, the trends and forces that have defined the new marketing realities in the first years of the 21st century are leading business firms to embrace a new set of beliefs and practices. The **holistic marketing** concept is based on the development, design, and implementation of marketing programs, processes, and activities that recognize their breadth and interdependencies. Holistic marketing acknowledges that everything matters in marketing—and that a broad, integrated perspective is often necessary.

Holistic marketing thus recognizes and reconciles the scope and complexities of marketing activities. Figure 1.4 provides a schematic overview of four broad components characterizing holistic marketing: relationship marketing, integrated marketing, internal marketing, and performance marketing. We'll examine these major themes throughout this book.

**RELATIONSHIP MARKETING** Increasingly, a key goal of marketing is to develop deep, enduring relationships with people and organizations that directly or indirectly affect the success of the firm's marketing activities. **Relationship marketing** aims to build mutually satisfying long-term relationships with key constituents in order to earn and retain their business.

Four key constituents for relationship marketing are customers, employees, marketing partners (channels, suppliers, distributors, dealers, agencies), and members of the financial community (shareholders, investors, analysts). Marketers must create prosperity among all these constituents and balance the returns to all key stakeholders. To develop strong relationships with them requires understanding their capabilities and resources, needs, goals, and desires.

**| Fig. 1.4 |**  
**Holistic Marketing**  
**Dimensions**



The ultimate outcome of relationship marketing is a unique company asset called a **marketing network**, consisting of the company and its supporting stakeholders—customers, employees, suppliers, distributors, retailers, and others—with whom it has built mutually profitable business relationships. The operating principle is simple: build an effective network of relationships with key stakeholders, and profits will follow. Thus more companies are choosing to own brands rather than physical assets, and they are subcontracting activities to firms that can do them better and more cheaply while retaining core activities at home.

Companies are also shaping separate offers, services, and messages to *individual customers*, based on information about their past transactions, demographics, psychographics, and media and distribution preferences. By focusing on their most profitable customers, products, and channels, these firms hope to achieve profitable growth, capturing a larger share of each customer’s expenditures by building high customer loyalty. They estimate individual customer lifetime value and design their market offerings and prices to make a profit over the customer’s lifetime.

Marketing must skillfully conduct not only customer relationship management (CRM), but partner relationship management (PRM) as well. Companies are deepening their partnering arrangements with key suppliers and distributors, seeing them as partners in delivering value to final customers so everybody benefits. IBM is a business-to-business powerhouse that has learned the value of strong customer bonds.<sup>57</sup>

**IBM** Having celebrated its 100th corporate anniversary in 2011, IBM is a remarkable survivor that has maintained market leadership for decades in the challenging technology industry. The company has managed to successfully evolve its business and seamlessly update the focus of its products and services numerous times in its history—from mainframes to PCs to its current emphasis on cloud computing, “big data,” and IT services. Part of the reason is that IBM’s well-trained sales force and service organization offer real value to customers by staying close to them and fully understanding their requirements. IBM often even cocreates products with customers; with the state of New York it developed a method for detecting tax evasion that reportedly saved taxpayers \$1.6 billion over a seven-year period. As famed Harvard Business School professor Rosabeth Moss Kanter has noted, “IBM is not a technology company but a company solving problems using technology.”

**INTEGRATED MARKETING** Integrated marketing occurs when the marketer devises marketing activities and assembles marketing programs to create, communicate, and deliver value for consumers such that “the whole is greater than the sum of its parts.” Two key themes are that (1) many different marketing activities can create, communicate, and deliver value and (2) marketers should design and implement any one marketing activity with all other activities in mind. When a hospital buys an MRI machine from General Electric’s

Medical Systems division, for instance, it expects good installation, maintenance, and training services to go with the purchase.

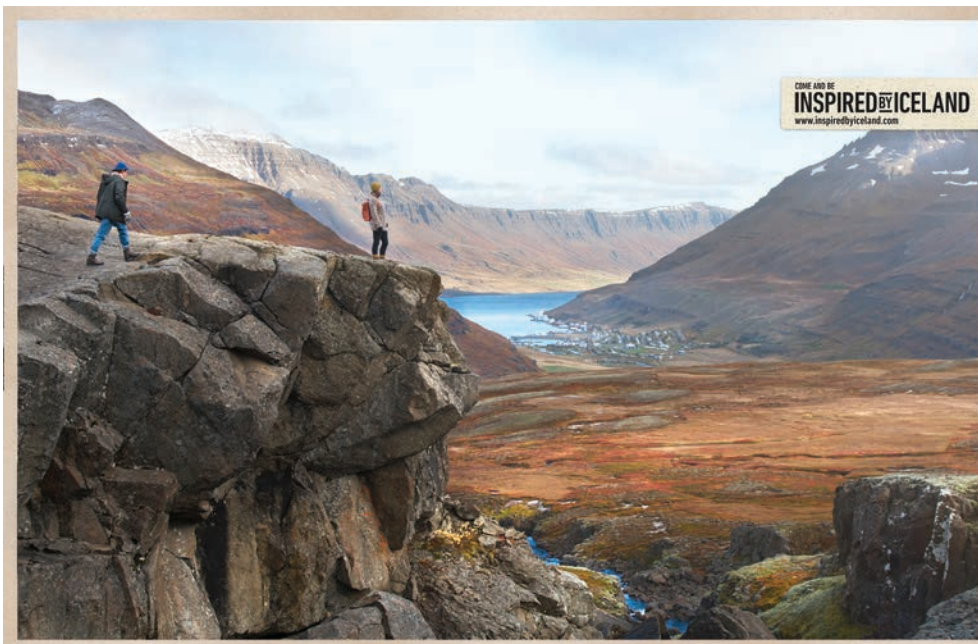
The company must develop an integrated channel strategy. It should assess each channel option for its direct effect on product sales and brand equity, as well as its indirect effect through interactions with other channel options.

All company communications also must be integrated so communication options reinforce and complement each other. A marketer might selectively employ television, radio, and print advertising, public relations and events, and PR and Web site communications so each contributes on its own and improves the effectiveness of the others. Each must also deliver a consistent brand message at every contact. Consider this award-winning campaign for Iceland.<sup>58</sup>

**ICELAND** Already reeling from some of the biggest losses in the global financial crisis in 2008, Iceland faced more misfortune when dormant volcano Eyjafjallajökull unexpectedly erupted in April 2010. Its enormous plumes of ash created the largest air-travel disruption since World War II, resulting in a wave of negative press and bad feelings throughout Europe and elsewhere. With tourism generating around 20 percent of the country's foreign exchange and bookings plummeting, government and tourism officials decided to launch "Inspired by Iceland." This campaign was based on the insight that 80 percent of visitors to Iceland recommend the destination to friends and family. The country's own citizens were recruited to tell their stories and encourage others to join in via a Web site or Twitter, Facebook, and Vimeo. Celebrities such as Yoko Ono and Eric Clapton shared their experiences, and live concerts generated PR. Real-time Web cams across the country showed that the country was not ash-covered but green. The campaign was wildly successful—22.5 million stories were created by people all over the world—and ensuing bookings were dramatically above forecasts.

**INTERNAL MARKETING** **Internal marketing**, an element of holistic marketing, is the task of hiring, training, and motivating able employees who want to serve customers well. Smart marketers recognize that marketing activities within the company can be as important—or even more important—than those directed outside the company. It makes no sense to promise excellent service before the company's staff is ready to provide it.

Marketing succeeds only when all departments work together to achieve customer goals (see Table 1.4): when engineering designs the right products, finance furnishes the right amount of funding, purchasing buys the right materials, production makes the right products in the right time horizon, and accounting measures profitability



Iceland's fully integrated modern tourism campaign helped to halt a slide in visitors to the country.

**TABLE 1.4** Assessing Which Company Departments Are Customer-Minded

<b>R&amp;D</b>
<ul style="list-style-type: none"> <li>• They spend time meeting customers and listening to their problems.</li> <li>• They welcome the involvement of marketing, manufacturing, and other departments to each new project.</li> <li>• They benchmark competitors' products and seek "best of class" solutions.</li> <li>• They solicit customer reactions and suggestions as the project progresses.</li> <li>• They continuously improve and refine the product on the basis of market feedback.</li> </ul>
<b>Purchasing</b>
<ul style="list-style-type: none"> <li>• They proactively search for the best suppliers.</li> <li>• They build long-term relationships with fewer but more reliable, high-quality suppliers.</li> <li>• They don't compromise quality for price savings.</li> </ul>
<b>Manufacturing</b>
<ul style="list-style-type: none"> <li>• They invite customers to visit and tour their plants.</li> <li>• They visit customer plants.</li> <li>• They willingly work overtime to meet promised delivery schedules.</li> <li>• They continuously search for ways to produce goods faster and/or at lower cost.</li> <li>• They continuously improve product quality, aiming for zero defects.</li> <li>• They meet customer requirements for "customization" where possible.</li> </ul>
<b>Marketing</b>
<ul style="list-style-type: none"> <li>• They study customer needs and wants in well-defined market segments.</li> <li>• They allocate marketing effort in relation to the long-run profit potential of the targeted segments.</li> <li>• They develop winning offers for each target segment.</li> <li>• They measure company image and customer satisfaction on a continuous basis.</li> <li>• They continuously gather and evaluate ideas for new products, product improvements, and services.</li> <li>• They urge all company departments and employees to be customer centered.</li> </ul>
<b>Sales</b>
<ul style="list-style-type: none"> <li>• They have specialized knowledge of the customer's industry.</li> <li>• They strive to give the customer "the best solution."</li> <li>• They make only promises that they can keep.</li> <li>• They feed back customers' needs and ideas to those in charge of product development.</li> <li>• They serve the same customers for a long period of time.</li> </ul>
<b>Logistics</b>
<ul style="list-style-type: none"> <li>• They set a high standard for service delivery time and meet this standard consistently.</li> <li>• They operate a knowledgeable and friendly customer service department that can answer questions, handle complaints, and resolve problems in a satisfactory and timely manner.</li> </ul>
<b>Accounting</b>
<ul style="list-style-type: none"> <li>• They prepare periodic "profitability" reports by product, market segment, geographic areas (regions, sales territories), order sizes, channels, and individual customers.</li> <li>• They prepare invoices tailored to customer needs and answer customer queries courteously and quickly.</li> </ul>
<b>Finance</b>
<ul style="list-style-type: none"> <li>• They understand and support marketing expenditures (e.g., image advertising) that produce long-term customer preference and loyalty.</li> <li>• They tailor the financial package to the customer's financial requirements.</li> <li>• They make quick decisions on customer creditworthiness.</li> </ul>
<b>Public Relations</b>
<ul style="list-style-type: none"> <li>• They send out favorable news about the company and "damage control" unfavorable news.</li> <li>• They act as an internal customer and public advocate for better company policies and practices.</li> </ul>

in the right ways. Such interdepartmental harmony can only truly coalesce, however, when senior management clearly communicates a vision of how the company's marketing orientation and philosophy serve customers. The following example highlights some of the potential challenge in integrating marketing:

The marketing vice president of a major European airline wants to increase the airline's traffic share. His strategy is to build up customer satisfaction by providing better food, cleaner cabins, better-trained cabin crews, and lower fares, yet he has no authority in these matters. The catering department chooses food that keeps food costs down; the maintenance department uses inexpensive cleaning services; the human resources department hires people without regard to whether they are naturally friendly; the finance department sets the fares. Because these departments generally take a cost or production point of view, the vice president of marketing is stymied in his efforts to create an integrated marketing program.

Internal marketing requires vertical alignment with senior management and horizontal alignment with other departments so everyone understands, appreciates, and supports the marketing effort.

**PERFORMANCE MARKETING** Performance marketing requires understanding the financial and nonfinancial returns to business and society from marketing activities and programs. As noted previously, top marketers are increasingly going beyond sales revenue to examine the marketing scorecard and interpret what is happening to market share, customer loss rate, customer satisfaction, product quality, and other measures. They are also considering the legal, ethical, social, and environmental effects of marketing activities and programs.

When they founded Ben & Jerry's, Ben Cohen and Jerry Greenfield embraced the performance marketing concept by dividing the traditional financial bottom line into a "double bottom line" that also measured the environmental impact of their products and processes. That later expanded into a "triple bottom line" to represent the social impacts, negative and positive, of the firm's entire range of business activities.

Many firms have failed to live up to their legal and ethical responsibilities, and consumers are demanding more responsible behavior.<sup>59</sup> One research study reported that at least one-third of consumers around the world believed that banks, insurance providers, and packaged-food companies should be subject to stricter regulation.<sup>60</sup>

## Updating the Four Ps

Many years ago, McCarthy classified various marketing activities into *marketing-mix* tools of four broad kinds, which he called *the four Ps* of marketing: product, price, place, and promotion.<sup>61</sup> The marketing variables under each P are shown in Figure 1.5.

A complementary view of the four Ps can be found in Marketing Insight: Understanding the 4 As of Marketing,<sup>62</sup>

Given the breadth, complexity, and richness of marketing, however—as exemplified by holistic marketing—clearly these four Ps are not the whole story anymore. If we update them to reflect the holistic marketing



**| Fig. 1.5 |**

The Four P Components of the Marketing Mix



## marketing insight

# Understanding the 4 As of Marketing

According to Jagdish Sheth and Rajendra Sisodia, poor management as a consequence of not knowing what drives consumers is behind the majority of marketing failures. The authors make the case that consumer knowledge is a much more reliable route to success. Their customer-centric marketing management framework emphasizes what they believe are the most important consumer values—acceptability, affordability, accessibility, and awareness—which they dub the four As.

### Acceptability

*Acceptability* is the extent to which a firm's total product offering exceeds customer expectations. The authors assert that Acceptability is the dominant component in the framework and that design, in turn, is at the root of acceptability. Functional aspects of design can be boosted by, for instance, enhancing the core benefit or increasing reliability of the product; psychological acceptability can be improved with changes to brand image, packing and design, and positioning.

### Affordability

*Affordability* is the extent to which customers in the target market are able and willing to pay the product's price. It has two dimensions: economic (ability to pay) and psychological (willingness to pay). Acceptability combined with affordability determines the product's value proposition. When Peachtree Software lowered the price of its accounting software from \$5000 to \$199 and started charging for customer support, sales demand increased enormously.

### Accessibility

*Accessibility*, the extent to which customers are able to readily acquire the product, has two dimensions: availability and convenience. Successful companies develop innovative ways to deliver both, as on-line shoe retailer Zappos does with excellent customer service and return policies and its tracking of up-to-the-minute information about warehouse stock, brands, and styles.

### Awareness

*Awareness* is the extent to which customers are informed regarding the product's characteristics, persuaded to try it, and reminded to repurchase. It has two dimensions: brand awareness and product knowledge. Sheth and Sisodia say awareness is ripest for improvement because most companies are either ineffectual or inefficient at developing it. For instance, properly done advertising can be incredibly powerful, but word-of-mouth marketing and co-marketing can more effectively reach potential customers.

Sheth and Sisodia base the 4 As framework on the four distinctive roles a consumer plays in the marketplace—seeker, buyer, payer, and user. A fifth consumer role—evangelizer—captures the fact that consumers often recommend products to others and are increasingly critical with the advent of the Internet and social media platforms.

Note that we can easily relate the 4 As to the traditional 4 Ps. Marketers set the product (which mainly influences acceptability), the price (which mainly influences affordability), the place (which mainly influences accessibility), and promotion (which mainly influences awareness).

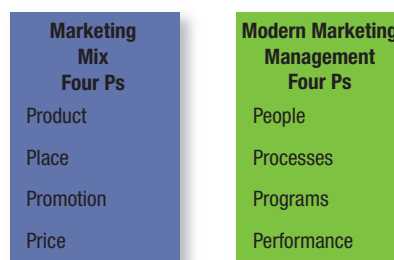
**Sources:** Jagdish N. Sheth and Rajendra Sisodia, *The 4 A's of Marketing: Creating Value for Customer, Company and Society* (New York: Routledge, 2012); "New Rules: Jagdish Sheth Outlines 4A's of Marketing," *The Financial Express*, April 6, 2004; "Industry Leaders Discuss Marketing for Not for Profit Organizations @ BIMTECH Marketing Summit," [www.mbauniverse.com](http://www.mbauniverse.com), May 1, 2012.

concept, we arrive at a more representative set that encompasses modern marketing realities: people, processes, programs, and performance, as in Figure 1.6.

*People* reflects, in part, internal marketing and the fact that employees are critical to marketing success. Marketing will only be as good as the people inside the organization. It also reflects the fact that marketers must view consumers as people to understand their lives more broadly, and not just as shoppers who consume products and services.

*Processes* reflects all the creativity, discipline, and structure brought to marketing management. Marketers must avoid ad hoc planning and decision making and ensure that state-of-the-art marketing ideas and concepts play an

**| Fig. 1.6 |**  
The Evolution of Marketing Management



appropriate role in all they do, including creating mutually beneficial long-term relationships and imaginatively generating insights and breakthrough products, services, and marketing activities.

*Programs* reflects all the firm's consumer-directed activities. It encompasses the old four Ps as well as a range of other marketing activities that might not fit as neatly into the old view of marketing. Regardless of whether they are online or offline, traditional or nontraditional, these activities must be integrated such that their whole is greater than the sum of their parts and they accomplish multiple objectives for the firm.

We define *performance* as in holistic marketing, to capture the range of possible outcome measures that have financial and nonfinancial implications (profitability as well as brand and customer equity) and implications beyond the company itself (social responsibility, legal, ethical, and the environment).

Finally, these new four Ps actually apply to *all* disciplines within the company, and by thinking this way, managers more closely align themselves with the rest of the company.

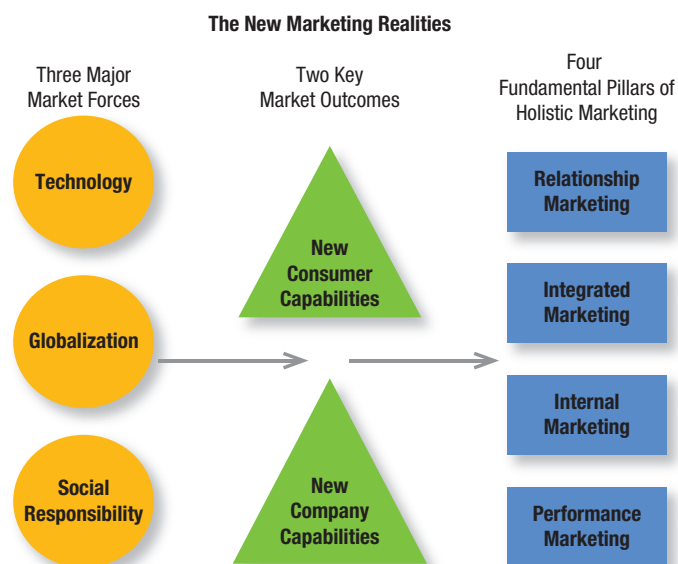
## Marketing Management Tasks

Figure 1.7 summarizes the three major market forces, two key market outcomes, and four fundamental pillars of holistic marketing that help to capture the new marketing realities. With these concepts in place, we can identify a specific set of tasks that make up successful marketing management and marketing leadership. We'll use the following situation to illustrate these tasks in the context of the plan of the book. (The "Marketing Memo: Marketers' Frequently Asked Questions" is a good checklist for the questions marketing managers ask, all of which we examine in this book.)

Zeus Inc. (name disguised) operates in several industries, including chemicals, cameras, and film. The company is organized into SBUs. Corporate management is considering what to do with its Atlas camera division, which produces a range of professional quality 35mm and consumer-friendly digital cameras. Although Zeus has a sizable share and is producing revenue, the 35mm market is rapidly declining at an accelerating rate. In the much faster-growing digital camera segment, Zeus faces strong competition and has been slow to gain sales. Zeus's corporate management wants Atlas's marketing group to produce a strong turnaround plan for the division.

## DEVELOPING MARKETING STRATEGIES AND PLANS

The first task facing Atlas is to identify its potential long-run opportunities, given its market experience and core competencies (see Chapter 2). Atlas can design its cameras with better features. It can make a line of digital video cameras, or it can use its core competency in optics to design a line of binoculars and telescopes. Whichever direction it chooses, it must develop concrete marketing plans that specify the marketing strategy and tactics going forward.



**| Fig. 1.7 |**

**The New Marketing Realities**

## CAPTURING MARKETING INSIGHTS

Atlas needs a reliable marketing information system to closely monitor its marketing environment so it can continually assess market potential and forecast demand. Its microenvironment consists of all the players who affect its ability to produce and sell cameras—suppliers, marketing intermediaries, customers, and competitors. Its macroenvironment includes demographic, economic, physical, technological, political-legal, and social-cultural forces that affect sales and profits (see Chapter 3).

Atlas also needs a dependable marketing research system. To transform strategy into programs, marketing managers must make basic decisions about their expenditures, activities, and budget allocations. They may use sales-response functions that show how the amount of money spent in each application will affect sales and profits (see Chapter 4).

## CONNECTING WITH CUSTOMERS

Atlas must consider how to best create value for its chosen target markets and develop strong, profitable, long-term relationships with customers (see Chapter 5). To do so, it needs to understand consumer markets (see Chapter 6). Who buys cameras, and why? What features and prices are they looking for, and where do they shop? Atlas also sells 35mm cameras to business markets, including large corporations, professional firms, retailers, and government agencies (see Chapter 7), where purchasing agents or buying committees make the decisions. Atlas needs to gain a full understanding of how organizational buyers buy. It needs a sales force well trained in presenting product benefits. Atlas must also take into account changing global opportunities and challenges (see Chapter 8).

## BUILDING STRONG BRANDS

Atlas will not want to market to all possible customers. It must divide the market into major market segments, evaluate each one, and target those it can best serve (see Chapter 9). Suppose Atlas decides to focus on the consumer market and develop a positioning strategy (see Chapter 10). Should it position itself as the “Cadillac” brand, offering superior cameras at a premium price with excellent service and strong advertising? Should it build a simple, low-priced camera aimed at more price-conscious consumers? Or something in between? Atlas must understand the strengths and weaknesses of the Zeus brand as customers see it (see Chapter 11). Is its 35mm film heritage a handicap in the digital camera market?

Atlas must consider growth strategies while also paying close attention to competitors (see Chapter 12), anticipating their moves and knowing how to react quickly and decisively. It may want to initiate some surprise moves, in which case it needs to anticipate how its competitors will respond.

### marketing memo

### Marketers' Frequently Asked Questions

1. How can we spot and choose the right market segment(s)?
2. How can we differentiate our offerings?
3. How should we respond to customers who buy on price?
4. How can we compete against lower-cost, lower-price competitors?
5. How far can we go in customizing our offering for each customer?
6. How can we grow our business?
7. How can we build stronger brands?
8. How can we reduce the cost of customer acquisition?
9. How can we keep our customers loyal longer?
10. How can we tell which customers are more important?
11. How can we measure the payback from different types of marketing communications?
12. How can we improve sales force productivity?
13. How can we establish multiple channels and yet manage channel conflict?
14. How can we get the other company departments to be more customer-oriented?

## CREATING VALUE

At the heart of the marketing program is the product—the firm's tangible offering to the market, which includes the product quality, design, features, and packaging (see Chapter 13). To gain a competitive advantage, Atlas may provide leasing, delivery, repair, and training as part of its product offering (see Chapter 14). Based on its product positioning, Atlas must initiate new-product development, testing, and launching as part of its long-term view (see Chapter 15).

A critical marketing decision relates to price (see Chapter 16). Atlas must decide on wholesale and retail prices, discounts, allowances, and credit terms. Its price should match well with the offer's perceived value; otherwise, buyers will turn to competitors' products.

## DELIVERING VALUE

Atlas must also determine how to properly deliver to the target market the value embodied in its products and services. Channel activities include those the company undertakes to make the product accessible and available to target customers (see Chapter 17). Atlas must identify, recruit, and link various marketing facilitators to supply its products and services efficiently to the target market. It must understand the various types of retailers, wholesalers, and physical-distribution firms and how they make their decisions (see Chapter 18).

## COMMUNICATING VALUE

Atlas must also adequately communicate to the target market the value embodied by its products and services. It will need an integrated marketing communication program that maximizes the individual and collective contribution of all communication activities (see Chapter 19). Atlas needs to set up mass communication programs consisting of advertising, sales promotion, events, and public relations (see Chapter 21). It also has to tap into online, social media, and mobile options to reach consumers whenever and wherever it may be appropriate (see Chapter 20). Atlas also needs to plan more personal communications, in the form of direct and database marketing, as well as hire, train, and motivate salespeople (see Chapter 22).

## CONDUCTING MARKETING RESPONSIBLY FOR LONG-TERM SUCCESS

Finally, Atlas must build a marketing organization capable of responsibly implementing the marketing plan (see Chapter 23). Because surprises and disappointments can occur as marketing plans unfold, Atlas will need feedback and control to understand the efficiency and effectiveness of its marketing activities and how it can improve them.

## Summary

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1. Marketing is an organizational function and a set of processes for creating, communicating, and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders. Marketing management is the art and science of choosing target markets and getting, keeping, and growing customers through creating, delivering, and communicating superior customer value.
2. Marketers are skilled at managing demand: They seek to influence its level, timing, and composition for goods, services, events, experiences, persons, places, properties, organizations, information, and ideas. They also operate in four different marketplaces: consumer, business, global, and nonprofit.
3. Marketing is not done only by the marketing department. It needs to affect every aspect of the customer experience. To create a strong marketing organization, marketers must think like executives in other departments, and executives in other departments must think more like marketers.
4. Today's marketplace is fundamentally different as a result of major societal forces that have resulted in many new consumer and company capabilities. In particular, technology, globalization, and social responsibility have created new opportunities and challenges and significantly changed marketing management. Companies seek the right balance of tried-and-true methods with breakthrough new approaches to achieve marketing excellence.
5. There are five competing concepts under which organizations can choose to conduct their business: the production concept, the product concept, the sell-

ing concept, the marketing concept, and the holistic marketing concept. The first three are of limited use today.

6. The holistic marketing concept is based on the development, design, and implementation of marketing programs, processes, and activities that recognize their breadth and interdependencies. Holistic marketing recognizes that everything matters in marketing and that a broad, integrated perspective is often necessary. Four
7. The set of tasks necessary for successful marketing management includes developing marketing strategies and plans, capturing marketing insights, connecting with customers, building strong brands, creating, delivering, and communicating value, and creating long-term growth.

## MyMarketingLab

Go to [mymktlab.com](http://mymktlab.com) to complete the problems marked with this icon  as well as for additional Assisted-graded writing questions.

## Applications

### Marketing Debate


#### Does Marketing Create or Satisfy Needs?

Marketing has often been defined in terms of satisfying customers' needs and wants. Critics, however, maintain that marketing goes beyond that and creates needs and wants that did not exist before. They feel marketers encourage consumers to spend more money than they should on goods and services they do not really need.

**Take a position:** Marketing shapes consumer needs and wants versus Marketing merely reflects the needs and wants of consumers.

### Marketing Discussion

#### Shifts in Marketing

 Consider the three key forces driving the new marketing realities. How are they likely to change in the future? What other major trends or forces might affect marketing?

## Marketing Excellence

### >> Nike

Nike hit the ground running in 1962. Originally known as Blue Ribbon Sports, the company focused on providing high-quality running shoes designed for athletes by athletes. Founder Philip Knight believed high-tech shoes for runners could be manufactured at competitive prices if imported from abroad. Nike's commitment to designing innovative footwear for serious athletes helped build a cult following among U.S. consumers.

Nike believed in a "pyramid of influence" where the preferences of a small percentage of top athletes influenced the product and brand choices of others. Nike's marketing campaigns have always featured accomplished athletes. For example, runner Steve Prefontaine,

the company's first spokesperson, had an irreverent attitude that matched Nike's spirit.

In 1985, Nike signed up then-rookie guard Michael Jordan as a spokesperson. Jordan was still an up-and-comer, but he personified superior performance. Nike's bet paid off—the Air Jordan line of basketball shoes flew off the shelves and revenues hit more than \$100 million in the first year alone. As one reporter stated, "Few marketers have so reliably been able to identify and sign athletes who transcend their sports to such great effect."

In 1988, Nike aired the first ads in its \$20 million "Just Do It" ad campaign. The campaign, which ultimately featured 12 TV spots in all, subtly challenged a generation of athletic enthusiasts to chase their goals. It was a natural manifestation of Nike's attitude of self-empowerment through sports.

As Nike began expanding overseas, the company learned that its U.S.-style ads were seen as too aggressive in Europe, Asia, and South America. Nike realized it had to “authenticate” its brand in other countries, so it focused on soccer (called football outside the United States) and became active as a sponsor of youth leagues, local clubs, and national teams. However, for Nike to build authenticity among the soccer audience, consumers had to see professional athletes using its product, especially athletes who won.

Nike’s big break came in 1994 when the Brazilian team (the only national team for which Nike had any real sponsorship) won the World Cup. That victory transformed Nike’s international image from a sneaker company into a brand that represented emotion, allegiance, and identification. Nike’s new alliance with soccer helped propel the brand’s growth internationally. In 2003, overseas revenues surpassed U.S. revenues for the first time, and in 2007, Nike acquired Umbro, a British maker of soccer-related footwear, apparel, and equipment. The acquisition made Nike the sole supplier to more than 100 professional soccer teams around the world and boosted Nike’s international presence and authenticity in soccer. The company sold Umbro in 2012 for \$225 million.

In recent years, Nike’s international efforts have been focused on emerging markets. During the 2008 Summer Olympics in Beijing, Nike honed in on China and developed an aggressive marketing strategy that countered Adidas’s sponsorship of the Olympic Games. Nike received special permission from the International Olympic Committee to run Nike ads featuring Olympic athletes during the games. In addition, Nike sponsored several teams and athletes, including most of the Chinese teams. This aggressive sponsorship strategy helped ignite sales in the Asian region by 15 percent.

In addition to expanding overseas, Nike has successfully expanded its brand into many sports and athletic categories, including footwear, apparel, and equipment. Nike continues to partner with high-profile and influential athletes, coaches, teams, and leagues to build credibility in these categories. For example, Nike aligned with tennis stars Maria Sharapova, Roger Federer, and Rafael Nadal to push its line of tennis clothing and gear. Some called the famous 2008 Wimbledon match between Roger Federer and Rafael Nadal—both dressed in swooshes from head to toe—a five-hour Nike commercial valued at \$10.6 million.

To promote its line of basketball shoes and apparel, Nike has partnered with basketball superstars such as Kobe Bryant and LeBron James. In golf, Nike’s swoosh appears on many golfers but most famously on Tiger Woods. In the years since Nike first partnered with Woods, Nike Golf has grown into a \$523 million business and literally changed the way golfers dress and

play today. Tiger’s powerful influence on the game and his Nike-emblazoned style has turned the greens at the majors into “golf’s fashion runway.”

Nike is the biggest sponsor of athletes in the world and plans to spend more than \$3 billion in athletic endorsements between 2012 and 2017. The company also has a history of standing by its athletes, such as Tiger Woods and Kobe Bryant, even as they struggle with personal problems. It severed its relationship with Lance Armstrong in 2012, however, after strong evidence showed that the cyclist doped during his time as an athlete and while competing during all Tour de Frances. Nike released a statement explaining, “Nike does not condone the use of illegal performance enhancing drugs in any manner.” Prior to the scandal, the company had helped develop Armstrong’s LIVESTRONG campaign to raise funds for cancer. It designed, manufactured, and sold more than 80 million yellow LIVESTRONG bracelets, netting \$500 million for the Lance Armstrong Foundation.

While Nike’s athletic endorsements help inspire and reach consumers, its most recent innovations in technology have resulted in more loyal and emotionally connected consumers. For example, Nike’s lead in the running category has grown to 60 percent market share thanks to its revolutionary running application and community called Nike+ (plus). Nike+ allows runners to engage in the ultimate running experience by seeing their real-time pace, distance, and route and by giving them coaching tips and online sharing capabilities. Nike expanded Nike+ to focus on key growth areas like basketball and exercise and recently launched Nike+ Basketball, Nike+ Kinect, and Nike+Fuelband, a bracelet/app that tracks daily activities.

Like many companies, Nike is trying to make its company and products more eco-friendly. However, unlike many companies, it does not promote these efforts. One brand consultant explained, “Nike has always been about winning. How is sustainability relevant to its brand?” Nike executives agree that promoting an eco-friendly message would distract from its slick high-tech image, so efforts like recycling old shoes into new shoes are kept quiet.

As a result of its successful expansion across geographic markets and product categories, Nike is the top athletic apparel and footwear manufacturer in the world. In 2014, revenues exceeded \$27 billion, and Nike dominated the athletic footwear market with 31 percent market share globally and 50 percent market share in the United States. Swooshes abound on everything from wristwatches to skateboards to swimming caps. The firm’s long-term strategy, however, is focused on running, basketball, football/soccer, men’s training, women’s training, and action sports.

### Questions

1. What are the pros, cons, and risks associated with Nike's core marketing strategy?
2. If you were Adidas, how would you compete with Nike?

**Sources:** Justin Ewers and Tim Smart, "A Designer Swooshes In," *U.S. News & World Report*, January 26, 2004, p. 12; "Corporate Media Executive of the Year," *Delaney Report*, January 12,

2004, p. 1; Barbara Lippert, "Game Changers: Inside the Three Greatest Ad Campaigns of the Past Three Decades," *Adweek*, November 17, 2008; "10 Top Nontraditional Campaigns," *Advertising Age*, December 22, 2003, p. 24; Chris Zook and James Allen, "Growth Outside the Core," *Harvard Business Review*, December 2003, p. 66; Jeremy Mullman, "NIKE: What Slowdown? Swoosh Rides Games to New High," *Advertising Age*, October 20, 2008, p. 34; Allison Kaplan, "Look Just Like Tiger (until You Swing)," *America's Intelligence Wire*, August 9, 2009; Reena Jana and Burt Helm, "Nike Goes Green, Very Quietly," *BusinessWeek*, June 22, 2009; Emily Jane Fox and Chris Isidore, "Nike Ends Contracts with Armstrong," *CNNMoney.com*, October 17, 2012; Nike Annual Report 2012.

## Marketing Excellence

### >> Google

In 1998, two Stanford University PhD students, Larry Page and Sergey Brin, founded a search engine company and named it Google. The name plays on the number *googol*—1 followed by 100 zeroes—and refers to the massive quantity of data available online that the company helps users find. Google's corporate mission is "To organize the world's information and make it universally accessible and useful." As such, the company focuses first and foremost on creating the perfect search engine. Google search works because it uses the millions of links on other Web sites to help determine which sites offer the most valuable content. The company has become the worldwide market leader for search engines through its strategic business focus and constant product innovation.

Google creates and distributes its products for free, which in turn has attracted a host of online advertisers seeking targeted advertising space. About 96 percent of its revenues come from online advertising, which means that creating new advertising space is critical to the company's growth. Google sells advertising space on its search pages through a program called AdWords, which is linked to specific keywords. Hundreds of thousands of companies use AdWords by buying "search ads," little text-based boxes shown alongside relevant search results that advertisers pay for only when users click on them. Google also runs an advertising program called AdSense, which allows any Web site to display targeted Google ads relevant to the content of its site. Web site publishers earn money every time their visitors click on these ads.

In addition to offering prime online real estate for advertisers, Google adds value by providing tools so businesses can better target their ads and understand the effectiveness of their marketing. Google Analytics, for example, is free to Google's advertisers and provides a custom report detailing how Internet users found the site, what ads they saw and/or clicked on, how they behaved on the site, and how much traffic was generated.

With its ability to deploy data that enable up-to-the-minute improvements in a Web marketing program, Google supports a style of marketing in which the advertising resources and budget can be constantly monitored and optimized. Google calls this approach "marketing asset management," implying that advertising should be managed like assets in a portfolio depending on the market conditions. Rather than following a marketing plan developed months in advance, companies use the real-time data collected on their campaigns to optimize the campaign's effectiveness and be more responsive to the market.

Since its launch, Google has expanded far beyond its search capabilities with numerous other products, applications, and tools that benefit both consumers and businesses. The goal behind each product was to help users find information they need and to help them get things done better, faster, and easier than before. Today, Google's wide range of products and services fall into the following categories: Web (Web Search, iGoogle, Google Chrome), Mobile (Mobile, Search for Mobile, Maps for Mobile), Media (Picasa, Google Play, Youtube.com, which Google acquired in 2006 for \$1.65 billion), Geo (Earth, Maps), Home & Office (Docs, Gmail, Calendar), Social (Google+, Blogger), Specialized Search (Patents, Finance, Scholarly Papers), and Innovation.

As the world becomes more mobile, Google is betting big in the mobile category. In 2008, Google launched Android, a mobile operating system that went head to head with Apple's iPhone. The biggest differentiation between the two was that Android was free, open sourced, and backed by a multimillion-dollar investment. That meant Google wanted its partners to help build and design Android over the years. The investment paid off, and by 2010, Android became the number-one mobile operating system in the market.

As Google expanded into mobile technology, it quickly became the leader in mobile advertising with 75 percent market share for search ads and approximately 50 percent market share for all mobile ads. In 2012, Google entered the mobile device category when it purchased Motorola and launched the Nexus 7, a sleek tablet that competed directly with the iPad and Kindle. As Google looks toward

the future, the company wants to offer the ultimate mobile solution—Google mobile devices along with mobile services so users can use all Google all the time.

Google's ultimate goal is to reach as many people as possible on the Web—whether by PC or by mobile devices. The more users on the Web, the more advertising Google can sell. Google's new products not only accomplish this goal but also make the Web a more personalized experience.

Google has enjoyed great success as a company and a brand in its short lifetime. From the beginning, it has strived to be one of the “good guys” in the corporate world, supporting a touchy-feely work environment, strong ethics, and a famous founding credo: “Don't be evil.” Google currently holds a 67 percent market share for core searches in the United States, significantly greater than Microsoft's 17 percent and Yahoo!'s 15 percent market shares. Globally, Google holds a more dominant lead, with 85 percent market share over Yahoo!'s 8 percent and Microsoft's 3 percent. Google's revenues topped \$59 billion in 2013, and the company was ranked

the second most powerful brand in the world with a brand value of \$107 billion. In addition, Google's \$400 billion market capitalization in 2014 edged out companies like Walmart and Microsoft to become the second most valuable company in the world.

### Questions

1. With a portfolio as diverse as Google's, what are the company's core brand values?
2. What's next for Google? Is the company right to put so much focus on Mobile?

**Sources:** www.google.com; Catherine P. Taylor, “Google Flex,” *Adweek*, March 20, 2006, cover story; Richard Karpinski, “Keywords, Analytics Help Define User Lifetime Value,” *Advertising Age*, April 24, 2006, p. S2; Danny Gorog, “Survival Guide,” *Herald Sun*, March 29, 2006; Julie Schlosser, “Google,” *Fortune*, October 31, 2005, pp. 168–69; Jefferson Graham, “Google's Profit Sails Past Expectations,” *USA Today*, October 21, 2005; Dan Frommer, “Google's Android Mobile Platform Is Getting Huge,” *Advertising Age*, October 8, 2009; Rita Chang, “Google Set for Richer Advertising on Smartphones,” *Advertising Age*, October 5, 2009; “comScore Releases September 2012 U.S. Search Engine Rankings,” comScore.com, October 11, 2012; Claire Cain Miller, “As Google Changes, Its Revenue Keeps Rising,” *The New York Times*, July 19, 2012; Roben Farzad, “Google at \$400 Billion: A New No. 2 in Market Cap,” *Bloomberg Businessweek*, February 12, 2104.





In This Chapter, We Will Address  
the Following **Questions**

1. How does marketing affect customer value? (p. 57)
2. How is strategic planning carried out at the corporate and divisional levels? (p. 60)
3. How is strategic planning carried out at the business unit level? (p. 70)
4. What does a marketing plan include? (p. 77)

HP, led by President and CEO Meg Whitman, is revising its corporate strategy to reflect significant changes in the marketing environment.

*Source: ChinaFotoPress via Getty Images*

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# 2 Developing Marketing Strategies and Plans

**Developing the right marketing strategies over time requires a blend of discipline and flexibility.** Firms must stick to a strategy but also constantly improve it. In today's fast-changing marketing world, identifying the best long-term strategies is crucial—but challenging—as HP has been finding out.<sup>1</sup>



*A true technology pioneer, Hewlett-Packard (HP) has encountered much difficulty in recent years, culminating in a massive quarterly charge of more than \$9.5 billion in 2012, its biggest ever. Of that total, \$8 billion was a write-down in the value of its IT services unit as the result of a disastrous acquisition of EDS. Revenue for the unit dropped when customers stopped signing large, long-term outsourcing contracts that were at the core of the unit's business model. A feud with Oracle, among other factors, hurt HP's sales of large servers to business customers. In a maturing market with few good new products, PC sales slowed so much that HP announced it was exiting the business. Printer and ink sales dropped as consumers began to print less. New CEO Meg Whitman vowed to increase the company's emphasis on design, reorganizing the PC group to come up with a cleaner, minimalist sensibility. Admitting that the company did not yet have a strategy for mobile phones, Whitman acknowledged there was much work to be done.*

**This chapter begins by examining** some of the strategic marketing implications in creating customer value. We'll look at several perspectives on planning and describe how to draw up a formal marketing plan.

## Marketing and Customer Value

The task of any business is to deliver customer value at a profit. A company can win only by fine-tuning the value delivery process and choosing, providing, and communicating superior value to increasingly well-informed buyers.

### THE VALUE DELIVERY PROCESS

The traditional—but dated—view of marketing is that the firm makes something and then sells it, with marketing taking place during the selling process. Companies that take this view succeed only in economies marked by goods shortages where consumers are not fussy about quality, features, or style—for example, basic staple goods in developing markets.

In economies with many different types of people, each with individual wants, perceptions, preferences, and buying criteria, the smart competitor must design and deliver offerings for well-defined target markets. This realization inspired a new view of business processes that places marketing at the *beginning* of planning. Instead of emphasizing making and selling, companies now see themselves as part of a value delivery process.

We can divide the value creation and delivery sequence into three phases.<sup>2</sup> First, *choosing the value* is the “homework” marketers must do before any product exists. They must segment the market, select the appropriate target, and develop the offering's value positioning. The formula “segmentation, targeting, positioning (STP)” is the essence of strategic marketing. The second phase is *providing the value*. Marketing must identify specific product features, prices, and distribution. The task in the third phase is *communicating the value* by utilizing the Internet, advertising, sales force, and any other communication tools to announce and promote the product. The value delivery process begins before there is a product and continues through development and after launch. Each phase has cost implications.

## THE VALUE CHAIN

Harvard's Michael Porter has proposed the **value chain** as a tool for identifying ways to create more customer value.<sup>3</sup> According to this model, every firm is a synthesis of activities performed to design, produce, market, deliver, and support its product. Nine strategically relevant activities—five primary and four support activities—create value and cost in a specific business.

The *primary activities* are (1) inbound logistics, or bringing materials into the business; (2) operations, or converting materials into final products; (3) outbound logistics, or shipping out final products; (4) marketing, which includes sales; and (5) service. Specialized departments handle the *support activities*—(1) procurement, (2) technology development, (3) human resource management, and (4) firm infrastructure. (Infrastructure covers the costs of general management, planning, finance, accounting, legal, and government affairs.)

The firm's task is to examine its costs and performance in each value-creating activity, *benchmarking* against competitors, and look for ways to improve. Managers can identify the “best of class” practices of the world's best companies by consulting customers, suppliers, distributors, financial analysts, trade associations, and the media to see who seems to be doing the best job. Even the best companies can benchmark, against other industries if necessary, to improve their performance. GE has benchmarked against P&G as well as developing its own best practices.<sup>4</sup>

The firm's success depends not only on how well each department performs its work, but also on how well the company coordinates departmental activities to conduct *core business processes*.<sup>5</sup> These processes include:

- **The market-sensing process**—gathering and acting upon information about the market
- **The new-offering realization process**—researching, developing, and launching new high-quality offerings quickly and within budget
- **The customer acquisition process**—defining target markets and prospecting for new customers
- **The customer relationship management process**—building deeper understanding, relationships, and offerings to individual customers
- **The fulfillment management process**—receiving and approving orders, shipping goods on time, and collecting payment

Strong companies are reengineering their work flows and building cross-functional teams to be responsible for each process.<sup>6</sup> Ford established a cross-functional team to help reduce water usage per vehicle by 30 percent.<sup>7</sup> AT&T, LexisNexis, and Pratt & Whitney have reorganized their employees into cross-functional teams; cross-functional teams operate in nonprofit and government organizations as well.<sup>8</sup>

A firm also needs to look for competitive advantages beyond its own operations in the value chains of suppliers, distributors, and customers. Many companies today have partnered with specific suppliers and distributors to create a superior **value delivery network**, also called a **supply chain**.

## CORE COMPETENCIES

Companies today outsource less-critical resources if they can obtain better quality or lower cost. The key is to own and nurture the resources and competencies that make up the *essence* of the business. Many textile, chemical, and computer/electronic product firms use offshore manufacturers and focus on product design and development and marketing, their core competencies. A **core competency** has three characteristics: (1) It is a source of competitive advantage and makes a significant contribution to perceived customer benefits; (2) It has applications in a wide variety of markets; and (3) It is difficult for competitors to imitate.

Competitive advantage also accompanies *distinctive capabilities* or excellence in broader business processes. Wharton's George Day sees market-driven organizations as excelling in three distinctive capabilities: market sensing, customer linking, and channel bonding.<sup>9</sup> In terms of market sensing, Day believes tremendous opportunities and threats often begin as “weak signals” from the “periphery” of a business.<sup>10</sup> He suggests systematically developing peripheral vision by asking three questions related to learning from the past, evaluating the present, and envisioning the future.

Businesses may need to realign themselves to maximize core competencies. Realignment has three steps: (1) (re)defining the business concept or “big idea”; (2) (re)shaping the business scope, sometimes geographically; and (3) (re)positioning the company's brand identity. Peabody Energy implemented a new global organizational structure—creating geographic business units in the Americas, Australia, and Asia—to reflect its growing global footprint.<sup>11</sup> Changes in business fortunes often necessitate realignment and restructuring, as Panasonic and other Japanese technology and electronic companies found.<sup>12</sup>



Source: Alberto Cristofari/A3/contrasto/Redux

Panasonic has encountered some marketplace challenges in recent years, forcing it to make changes in what businesses it is in and how they are run.

**PANASONIC** As Panasonic approaches its 100th anniversary in 2018, it faces unprecedented difficulties, notably a massive loss of roughly \$19 billion over 2011 and 2012. For years, its “Ideas for Life” positioning had fueled innovation, generating successful products like its rugged Toughbook notebook computers. Its television sets and other home electronics ran into trouble, however, when the economy stalled just as consumers began to treat flat-screen LCD televisions as a commodity. Further, a strong yen and high manufacturing costs in Japan made it difficult for Panasonic to compete on price. Anti-Japanese sentiment from a territorial dispute proved a stumbling block in China. Finally, the acquisition of Sanyo in 2009, designed to help the company sell more green-energy products, was disappointing. A major restructuring by new president Kazuhiro Tsuga in fall 2012 scaled back manufacturing in Japan, abandoned the mobile phone market overseas, and cut back investment in solar panels and rechargeable batteries. Tsuga emphasized that Panasonic will streamline business units and emphasize profit, not just revenue growth.

## THE CENTRAL ROLE OF STRATEGIC PLANNING

Only a select group of companies have historically stood out as master marketers (see Table 2.1). These companies focus on the customer and are organized to respond effectively to changing needs. They all have well-staffed marketing departments, and their other departments accept that the customer is king. They also often have strong marketing leadership in the form of a successful CMO (see “Marketing Memo: What Does It Take to Be a Successful CMO?”).

To ensure they execute the right activities, marketers must prioritize strategic planning in three key areas: (1) managing the businesses as an investment portfolio, (2) assessing the market’s growth rate and the company’s position in that market, and (3) establishing a strategy. The company must develop a game plan for achieving each business’s long-run objectives.

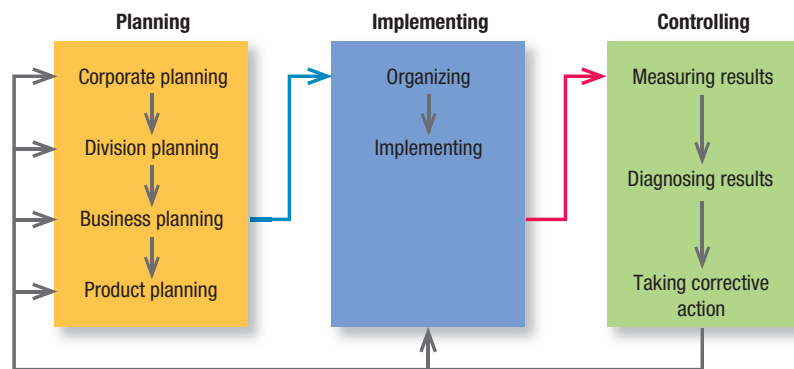
Most large companies consist of four organizational levels: (1) corporate, (2) division, (3) business unit, and (4) product. Corporate headquarters is responsible for designing a corporate strategic plan to guide the whole enterprise; it makes decisions on the amount of resources to allocate to each division as well as on which businesses to start or eliminate. Each division establishes a plan covering the allocation of funds to each business unit within the division. Each business unit develops a strategic plan to carry that business unit into a profitable future. Finally, each product level (product line, brand) develops a marketing plan for achieving its objectives.

The **marketing plan** is the central instrument for directing and coordinating the marketing effort. It operates at two levels: strategic and tactical. The **strategic marketing plan** lays out the target markets and the firm’s value proposition, based on an analysis of the best market opportunities. The **tactical marketing plan** specifies the marketing tactics, including product features, promotion, merchandising, pricing, sales channels, and service. The complete planning, implementation, and control cycle of strategic planning is shown in Figure 2.1. Next, we consider planning at each of the four levels of the organization.

Amazon.com	Enterprise Rent-A-Car	Red Bull
Apple	Google	Ritz-Carlton
Bang & Olufsen	Harley-Davidson	Samsung
Best Buy	Honda	Southwest Airlines
BMW	IKEA	Starbucks
Caterpillar	LEGO	Target
Club Med	McDonald's	Tesco
Costco	Nike	Toyota
Disney	Nordstrom	Virgin
eBay	Procter & Gamble	Walmart
Electrolux	Progressive Insurance	Whole Foods

| Fig. 2.1 |

The Strategic Planning, Implementation, and Control Processes



## Corporate and Division Strategic Planning

Whether they let their business units set their own goals and strategies or collaborate in doing so, all corporate headquarters undertake four planning activities:

1. Defining the corporate mission
2. Establishing strategic business units
3. Assigning resources to each strategic business unit
4. Assessing growth opportunities

We'll briefly look at each process.

## marketing memo

### What Does it Take to Be a Successful CMO?

The challenge chief marketing officers (CMOs) face is that success factors are many and varied. CMOs must have strong quantitative *and* qualitative skills; they must have an independent, entrepreneurial attitude but work closely with other departments; and they must capture the “voice” of consumers yet have a keen bottom-line understanding of how marketing creates value. Two-thirds of top CMOs think return-on-marketing-investment (ROMI) will be the primary measure of their effectiveness in 2015.

One survey asking 200 senior-level marketing executives which innate and learned qualities were most important yielded these answers:

#### Innate Qualities

- Risk taker
- Willingness to make decisions
- Problem-solving ability
- Change agent
- Results-oriented

#### Learned Qualities

- Global experience
- Multichannel expertise
- Cross-industry experience
- Digital focus
- Operational knowledge

Marketing experts George Day and Robert Malcolm believe three driving forces will change the role of the CMO in the coming years: (1) predictable marketplace trends, (2) the changing role of the C-suite, and (3) uncertainty about the economy and organizational design. They identify five priorities for any successful CMO:

1. Act as the visionary for the future of the company.
2. Build adaptive marketing capabilities.
3. Win the war for marketing talent.
4. Tighten the alignment with sales.
5. Take accountability for returns on marketing spending.

Perhaps the most important role for any CMO is to infuse a customer perspective in business decisions affecting any customer *touch point* (where a customer directly or indirectly interacts with the company). Increasingly, these customer insights must have a global focus. As one top executive search firm leader said, “Tomorrow’s CMO will have to have global and international experience. You can do it without living abroad...but you have to get exposure to those markets. It opens your eyes to new ways of doing business, increases cultural sensitivity and increases flexibility.”

**Sources:** Jennifer Rooney, “CMO Tenure Hits 43-Month Mark,” *Forbes*, June 14, 2012; Steven Cook, “It’s Time to Raise the CMO Bar,” [www.cmo.com](http://www.cmo.com), January 24, 2012; “From Stretched to Strengthened: Insights from the Global Chief Marketing Officer Study,” *IBM CMO C-Suite Studies*, October 2011; Natalie Zmuda, “Global Experience Rises as Prerequisite to Getting Ahead,” *Advertising Age*, June 10, 2012; George S. Day and Robert Malcolm, “The CMO and the Future of Marketing,” *Marketing Management*, Spring 2012, pp. 34–43; Marc De Swann Arons and Frank Van Den Driest, *The Global Brand CEO: Building the Ultimate Marketing Machine* (New York: Airstream, 2011); Marylee Sachs, *The Changing MO of the CMO: How the Convergence of Brand and Reputation Is Affecting Marketers* (Surry, England: Gower, 2011); Marylee Sachs, *What the New Breed of CMOs Know That You Don’t* (Surry, England: Gower, 2013).

## DEFINING THE CORPORATE MISSION

An organization exists to accomplish something: to make cars, lend money, provide a night’s lodging. Over time, the mission may change to respond to new opportunities or market conditions. Amazon.com changed its mission from being the world’s largest online bookstore to aspiring to be the world’s largest online store; eBay changed from running online auctions for collectors to running online auctions of all kinds of goods; and Dunkin’ Donuts switched its emphasis from doughnuts to coffee.

To define its mission, a company should address Peter Drucker’s classic questions:<sup>13</sup> What is our business? Who is the customer? What is of value to the customer? What will our business be? What should our business be? These simple-sounding questions are among the most difficult a company will ever face. Successful companies continuously ask and answer them.

**BUSINESS DEFINITION** Companies often define themselves in terms of products: They are in the “auto business” or the “clothing business.” *Market definitions* of a business, however, describe the business as a customer-satisfying process. Products are transient; basic needs and customer groups endure forever. Transportation is a need: the horse and carriage, automobile, railroad, airline, ship, and truck are products that meet that need. Consider how Steelcase takes a market definition approach to its business.<sup>14</sup>

Steelcase has found much success by redefining its business as more broadly than office furniture.



Source: ©Steelcase 2014

**STEELCASE** The world’s best-selling maker of office furniture, Steelcase describes itself as “the global leader in furnishing the work experience in office environments.” Defining its business broadly, former CEO James Hackett believes, “enabled a lot of the great insights that we had found out about work to be transferred beyond the office (and into furnishing home offices, schools and health care facilities).” Steelcase uses a 23-person research team to gain those insights and conducts interviews and surveys, films office activities, and uses sensors to measure how workers use rooms and furnishings. Firms are ordering fewer cubicles and filing cabinets, for instance, and more benches, tables, and café seating to free employees to brainstorm and collaborate. Hackett defines the trend as the move from an “I/Fixed” to a “We/Mobile” mentality. Increased performance is the company’s key goal. If it feels it will make workers happier and more productive, Steelcase can convince a firm to modernize and upgrade its office furniture.

Viewing businesses in terms of customer needs can suggest additional growth opportunities. Table 2.2 lists companies that have moved from a product to a market definition of their business.

A *target market definition* tends to focus on selling a product or service to a current market. Pepsi could define its target market as everyone who drinks carbonated soft drinks, and competitors would therefore be other carbonated soft drink companies. A *strategic market definition*, however, also focuses on the potential market. If Pepsi considered everyone who might drink something to quench his or her thirst, its competition would include noncarbonated soft drinks, bottled water, fruit juices, tea, and coffee.

**TABLE 2.2** Product-Oriented versus Market-Oriented Definitions of a Business

Company	Product Definition	Market Definition
Union Pacific Railroad	We run a railroad.	We are a people-and-goods mover.
Xerox	We make copying equipment.	We help improve office productivity.
Hess Corporation	We sell gasoline.	We supply energy.
Paramount Pictures	We make movies.	We market entertainment.
Encyclopaedia Britannica	We sell encyclopedias online.	We distribute information.
Carrier	We make air conditioners and furnaces.	We provide climate control in the home.

**CRAFTING A MISSION STATEMENT** A clear, thoughtful **mission statement**, developed collaboratively with and shared with managers, employees, and often customers, provides a shared sense of purpose, direction, and opportunity. At its best it reflects a vision, an almost “impossible dream,” that provides direction for the next 10 to 20 years. Sony’s former president, Akio Morita, wanted everyone to have access to “personal portable sound,” so his company created the Walkman and portable CD player. Fred Smith wanted to deliver mail anywhere in the United States before 10:30 AM the next day, so he created FedEx.

Good mission statements have five major characteristics.

1. **They focus on a limited number of goals.** Compare a vague mission statement such as “To build total brand value by innovating to deliver customer value and customer leadership faster, better, and more completely than our competition” to Google’s ambitious but more focused mission statement, “To organize the world’s information and make it universally accessible and useful.”
2. **They stress the company’s major policies and values.** Narrowing the range of individual discretion lets employees act consistently on important issues.
3. **They define the major competitive spheres within which the company will operate.** Table 2.3 summarizes some key competitive dimensions for mission statements.
4. **They take a long-term view.** Management should change the mission only when it ceases to be relevant.
5. **They are as short, memorable, and meaningful as possible.** Marketing consultant Guy Kawasaki advocates developing three- to four-word corporate mantras—like “Enriching Women’s Lives” for Mary Kay—rather than mission statements.<sup>15</sup>

**TABLE 2.3** Defining Competitive Territory and Boundaries in Mission Statements

- |   |
|---|
| <ul style="list-style-type: none"> <li>• <b>Industry.</b> <i>Some companies operate in only one industry; some only in a set of related industries; some only in industrial goods, consumer goods, or services; and some in any industry.</i> <ul style="list-style-type: none"> <li>• Caterpillar focuses on the industrial market; John Deere operates in the industrial and consumer markets.</li> </ul> </li> </ul>   |
| <ul style="list-style-type: none"> <li>• <b>Products and applications.</b> <i>Firms define the range of products and applications they will supply.</i> <ul style="list-style-type: none"> <li>• St. Jude Medical’s mission is “develop medical technology and services that put more control into the hands of those who treat cardiac, neurological and chronic pain patients, worldwide. We do this because we are dedicated to advancing the practice of medicine by reducing risk wherever possible and contributing to successful outcomes for every patient.”</li> </ul> </li> </ul>   |
| <ul style="list-style-type: none"> <li>• <b>Competence.</b> <i>The firm identifies the range of technological and other core competencies it will master and leverage.</i> <ul style="list-style-type: none"> <li>• Japan’s NEC has built its core competencies in computing, communications, and components to support production of laptop computers, television receivers, and handheld telephones.</li> </ul> </li> </ul>   |
| <ul style="list-style-type: none"> <li>• <b>Market segment.</b> <i>The type of market or customers a company will serve is the market segment.</i> <ul style="list-style-type: none"> <li>• Aston Martin makes only high-performance sports cars. Gerber serves primarily the baby market.</li> </ul> </li> </ul>   |
| <ul style="list-style-type: none"> <li>• <b>Vertical.</b> <i>The vertical sphere is the number of channel levels, from raw material to final product and distribution, in which a company will participate.</i> <ul style="list-style-type: none"> <li>• At one extreme are companies with a large vertical scope. American Apparel dyes, designs, sews, markets, and distributes its line of clothing apparel out of a single building in downtown Los Angeles.<sup>16</sup></li> <li>• At the other extreme are “hollow corporations,” which outsource the production of nearly all goods and services to suppliers. Metro newspaper is published in 56 editions in 22 countries on four continents and is read by more than 17 million people every day. It employs few reporters and owns no printing presses; instead it purchases its articles from other news sources and outsources all its printing and much of its distribution to third parties.<sup>17</sup></li> </ul> </li> </ul> |
| <ul style="list-style-type: none"> <li>• <b>Geographical.</b> <i>The range of regions, countries, or country groups in which a company will operate defines its geographical sphere.</i> <ul style="list-style-type: none"> <li>• Some companies operate in a specific city or state. Others are multinationals like Deutsche Post DHL and Royal Dutch/Shell, which each operate in more than 100 countries.</li> </ul> </li> </ul>   |





Source: © Horizons WWPP/Alamy

Metro outsources much of its production and operations for the different newspapers which it publishes in markets around the world.

## ESTABLISHING STRATEGIC BUSINESS UNITS

Large companies normally manage quite different businesses, each requiring its own strategy. At one time, General Electric classified its businesses into 49 **strategic business units (SBUs)**. An SBU has three characteristics:

1. It is a single business, or a collection of related businesses, that can be planned separately from the rest of the company.
2. It has its own set of competitors.
3. It has a manager responsible for strategic planning and profit performance, who controls most of the factors affecting profit.

The purpose of identifying the company's strategic business units is to develop separate strategies and assign appropriate funding. Senior management knows its portfolio of businesses usually includes a number of "yesterday's has-beens" as well as "tomorrow's winners." Liz Claiborne has put more emphasis on some of its younger businesses such as Juicy Couture, Lucky Brand Jeans, Mexx, and Kate Spade while selling businesses without the same buzz (Ellen Tracy, Sigrid Olsen, and Laundry).

## ASSIGNING RESOURCES TO EACH SBU<sup>18</sup>

Once it has defined SBUs, management must decide how to allocate corporate resources to each. The GE/McKinsey Matrix classified each SBU by the extent of its competitive advantage and the attractiveness of its industry. Management could decide to grow, "harvest" or draw

cash from, or hold on to the business. BCG's Growth-Share Matrix used relative market share and annual rate of market growth as criteria for investment decisions, classifying SBUs as dogs, cash cows, question marks, and stars.

Portfolio-planning models like these have largely fallen out of favor as oversimplified and subjective. Newer methods rely on shareholder value analysis and on whether the market value of a company is greater with an SBU or without it. These value calculations assess the potential of a business based on growth opportunities from global expansion, repositioning or retargeting, and strategic outsourcing.

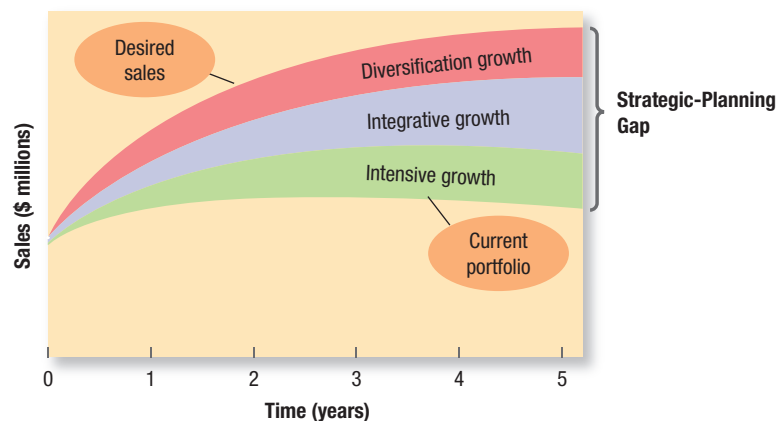
## ASSESSING GROWTH OPPORTUNITIES

Assessing growth opportunities includes planning new businesses, downsizing, and terminating older businesses. If there is a gap between future desired sales and projected sales, corporate management will need to develop or acquire new businesses to fill it.

Figure 2.2 illustrates this strategic-planning gap for a hypothetical manufacturer of blank DVD discs called Cineview. The lowest curve projects expected sales from the current business portfolio over the next

**| Fig. 2.2 |**

The Strategic-Planning Gap



five years. The highest describes desired sales over the same period. Evidently, the company wants to grow much faster than its current businesses will permit. How can it fill the strategic-planning gap?

The first option is to identify opportunities for growth within current businesses (intensive opportunities). The second is to identify opportunities to build or acquire businesses related to current businesses (integrative opportunities). The third is to identify opportunities to add attractive unrelated businesses (diversification opportunities).

**INTENSIVE GROWTH** Corporate management should first review opportunities for improving existing businesses. One useful framework is a “product-market expansion grid,” which considers the strategic growth opportunities for a firm in terms of current and new products and markets.

The company first considers whether it could gain more market share with its current products in their current markets, using a *market-penetration strategy*. Next it considers whether it can find or develop new markets for its current products, in a *market-development strategy*. Then it considers whether it can develop new products for its current markets with a *product-development strategy*. Later the firm will also review opportunities to develop new products for new markets in a *diversification strategy*. Consider how ESPN has pursued a variety of growth opportunities (see Figure 2.3).<sup>19</sup>



Source: © Patti McConville/Alamy

Liz Claiborne has put more emphasis on its Juicy Couture stores than its other slower-growing lines of business.

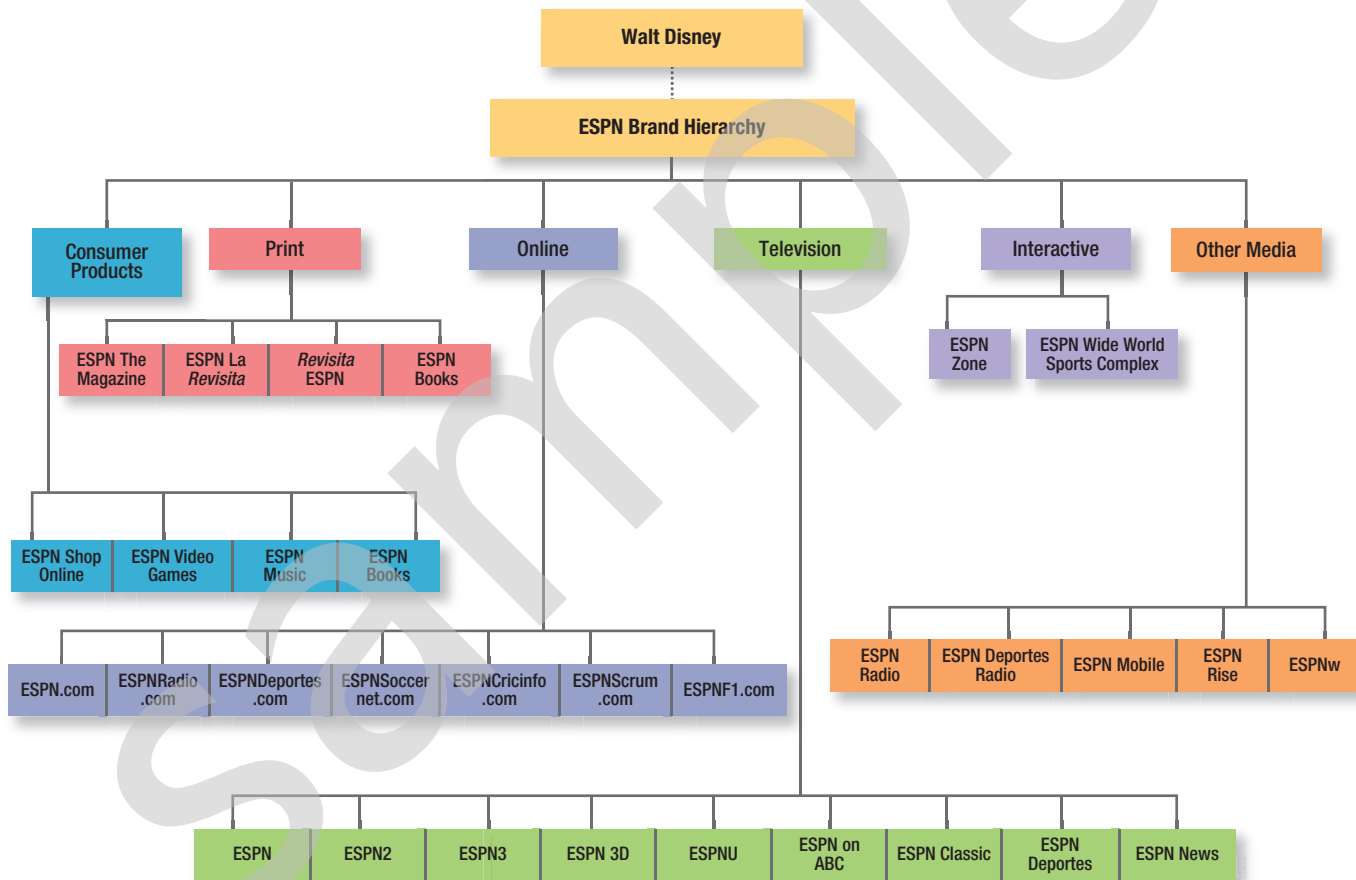
**ESPN** Through its singular focus on sports programming and news, ESPN grew from a small regional broadcaster into the biggest name in sports. In the early 1990s, the company crafted a well-thought-out plan: Wherever sports fans watched, read, and discussed sports, ESPN would be there. It pursued this strategy by expanding its brand and now encompasses 10 cable channels, a Web site, a magazine, a few restaurants (ESPN Zone), more than 600 local radio affiliates, original movies and television series, book publishing, a sports merchandise catalog and online store, music and video games, and a mobile service. ESPN International partly or wholly owns 47 television networks outside the United States and a variety of additional businesses that reach sports fans in more than 200 countries and territories across all seven continents. Now owned by The Walt Disney Company, ESPN contributes \$9.4 billion a year in revenue, or roughly three-fourths of Disney’s total cable network revenues. But perhaps the greatest tribute to the power of its brand came from one male focus group respondent who said, “If ESPN was a woman, I’d marry her.”

So how might Cineview use these three major intensive growth strategies to increase its sales? It could try to encourage its current customers to buy more by demonstrating the benefits of using DVD discs for data storage in addition to video storage. It could try to attract competitors’ customers if it noticed major weaknesses in their products or marketing programs. Finally, Cineview could try to convince nonusers to start using blank DVD discs.

How can Cineview use a market-development strategy? First, it might try to identify potential user groups in the current sales areas. If it has been selling DVD discs only to consumer markets, it might go after office and factory markets. Second, it might seek additional distribution channels by adding mass merchandising or online channels. Third, the company might sell in new locations in its home country or abroad.

Management should also consider new-product possibilities. Cineview could develop new features, such as additional data storage capabilities or greater durability. It could offer the DVD discs at two or more quality levels, or it could research an alternative technology such as flash drives.

These intensive growth strategies offer several ways to grow. Still, that growth may not be enough, and management must also look for integrative growth opportunities.



| Fig. 2.3 |

## ESPN Growth Opportunities

**INTEGRATIVE GROWTH** A business can increase sales and profits through backward, forward, or horizontal integration within its industry. Merck formed joint ventures as far back as 1989 with Johnson & Johnson to sell over-the-counter pharmaceuticals and 1991 with DuPont to expand basic research. In 1997, Merck and Rhône-Poulenc S.A. (now Sanofi-Aventis S.A.) combined their animal health and poultry genetics businesses to form Merial Limited, a fully integrated animal health company. Finally, Merck acquired Schering-Plough in 2009.<sup>20</sup>

Horizontal mergers and alliances don't always work out. The merger between Sears and Kmart didn't solve either retailer's problems.<sup>21</sup> Nextel Communications Inc. merged with Sprint in 2005 in what Bloomberg's financial analysts called one of the worst mergers of the past 10 years, in part due to their incompatible networks.<sup>22</sup> Consider the challenges faced by United and Continental in their merger.<sup>23</sup>

**UNITED AND CONTINENTAL** Airline mergers are notoriously tricky, laden with regulations and a host of potentially conflicting considerations about safety, cost, style, reliability, convenience, speed, and comfort. United's merger with Continental made sense strategically and financially, but logistical problems seemed endless because the two airlines ran their businesses in very different ways, from boarding procedures to the way they brought planes into the gate. Even coffee was a thorny issue; United served Starbucks while Continental used a company called Fresh Brew. After extensive research, a suitable compromise was identified—a lighter fresh blend called Journeys—but customers were unimpressed until the company discovered the two airlines had different brew baskets and United's was actually leaking water and diluting the coffee. New pillow packs were commissioned to solve the problem.



Source: ESPN, Inc.

ESPN's flagship *SportsCenter* program is an anchor of its television network and related sports businesses.

Media companies, on the other hand, have long reaped the benefits of integrative growth. Consider how NBC Universal leveraged one of its properties:<sup>24</sup>

Following the 2006 *Curious George* movie release via Universal Pictures, *Curious George* the TV show was released on PBS Kids as a joint production by Universal Studios Family Productions, Imagine Entertainment and WGBH Boston. Universal Studios Hollywood currently has an *Adventures of Curious George* ride where kids can “soak up the thrills of a five hundred gallon water dump and unleash thousands of flying foam balls...”

How might Cineview achieve integrative growth? The company might acquire one or more of its suppliers, such as plastic material producers, to gain more control or generate more profit through backward integration. It might acquire some wholesalers or retailers, especially if they are highly profitable, in forward integration. Finally, Cineview might acquire one or more competitors, provided the government does not bar this horizontal integration. However, these new sources may still not deliver the desired sales volume. In that case, the company must consider diversification.



Source: Associated Press

United and Continental found it harder to merge their airlines than just blending their logos on their planes.

**DIVERSIFICATION GROWTH** Diversification growth makes sense when good opportunities exist outside the present businesses—the industry is highly attractive and the company has the right mix of business strengths to succeed. From its origins as an animated film producer, The Walt Disney Company has moved into licensing characters for merchandised goods, publishing general interest fiction books under the Hyperion imprint, entering the broadcast industry with its own Disney Channel as well as ABC and ESPN, developing theme parks and vacation and resort properties, and offering cruise and commercial theatre experiences.

Several types of diversification are possible for Cineview. First, the company could choose a concentric strategy and seek new products that have technological or marketing synergies with existing product lines, though appealing to a different group of customers. It might start a compact disc manufacturing operation because it knows how to manufacture DVD discs or a flash drive manufacturing operation because it knows digital storage. Second, it might use a horizontal strategy and produce plastic DVD cases, for example, though they require a different manufacturing process. Finally, the company might seek new businesses with no relationship to its current technology, products, or markets, adopting a conglomerate strategy to consider making application software or personal organizers.

**DOWNSIZING AND DIVESTING OLDER BUSINESSES** Companies must carefully prune, harvest, or divest tired old businesses to release needed resources for other uses and reduce costs. To focus on its travel and credit card operations, American Express spun off American Express Financial Advisors, which provided insurance, mutual funds, investment advice, and brokerage and asset management services (it was renamed Ameriprise Financial). American International Group (AIG) agreed to sell two of its subunits—American General Indemnity Co. and American General Property Insurance Co.—to White Mountains Insurance Group as part of a long-term growth strategy to discard redundant assets and focus on its core operations.<sup>25</sup>

## ORGANIZATION AND ORGANIZATIONAL CULTURE

Strategic planning happens within the context of the organization. A company's **organization** consists of its structures, policies, and corporate culture, all of which can become dysfunctional in a rapidly changing business environment. Whereas managers can change structures and policies (though with difficulty), the company's culture is very hard to change. Yet adapting the culture is often the key to successfully implementing a new strategy.

What exactly is a **corporate culture**? Some define it as “the shared experiences, stories, beliefs, and norms that characterize an organization.” Walk into any company and the first thing that strikes you is the corporate culture—the way people dress, talk to one another, and greet customers.

A customer-centric culture can affect all aspects of an organization. Enterprise Rent-A-Car features its own employees in its latest “The Enterprise Way” ad campaign. Through its “Making It Right” training program,

Enterprise Rent-A-Car is known for its strong consumer-centric corporate culture.



Source: Getty Images

Enterprise empowers all employees to make their own decisions. One ad in the campaign, themed “Fix Any Problem,” reinforces how any local Enterprise outlet has the authority to take actions to maximize customer satisfaction.<sup>26</sup>

## MARKETING INNOVATION

Innovation in marketing is critical. Imaginative ideas on strategy exist in many places within a company. Senior management should identify and encourage fresh ideas from three generally underrepresented groups: employees with youthful or diverse perspectives, employees far removed from company headquarters, and employees new to the industry. Each group can challenge company orthodoxy and stimulate new ideas.

British-based Reckitt Benckiser has been an innovator in the staid household cleaning products industry by generating 35 percent of sales from products under three years old.<sup>27</sup> Its multinational staff is encouraged to dig deep into consumer habits and is well rewarded for excellent performance. Slovenia-based Krka—makers of prescription pharmaceuticals, non-prescription products and animal health products—aims to generate more than 40 percent of its total sales from new products.<sup>28</sup> “Marketing Insight: Creating Innovative Marketing” describes how some leading companies approach innovation.

Firms develop strategy by choosing their view of the future. The Royal Dutch/Shell Group has pioneered **scenario analysis**, which develops plausible representations of a firm’s possible future using assumptions about forces driving the market and different uncertainties. Managers think through each scenario with the question, “What will we do if it happens?” adopt one scenario as the most probable, and watch for signposts that might confirm or disconfirm it.<sup>29</sup> Consider the strategic challenges faced by the movie industry.<sup>30</sup>

### marketing insight

## Creating Innovative Marketing

When IBM surveyed top CEOs and government leaders about their priorities, business-model innovation and coming up with unique ways of doing things scored high. IBM’s own drive for business-model innovation led to much collaboration, both within IBM and externally with companies, governments, and educational institutions. Then-CEO Samuel Palmisano noted how the breakthrough Cell processor, based on the company’s Power architecture, would not have happened without collaboration with Sony and Nintendo, as well as competitors Toshiba and Microsoft.

Procter & Gamble (P&G) has made it a goal for 50 percent of new products to come from outside its labs—from inventors, scientists, and suppliers whose new-product ideas can be developed in-house. Mark Benioff, CEO and co-founder of Salesforce.com, believes the key to innovation is the ability to adapt. While the company spent years relying on disruptive ideas to come from within, it acquired two firms for \$1 billion because it “couldn’t afford to wait” and has purchased 24 firms in total. As Benioff notes, “Innovation is a continuum. You have to think about how the world is evolving and transforming. Are you part of the continuum?”

Business guru Jim Collins’s research emphasizes the importance of systematic, broad-based innovation: “Always looking for the one big breakthrough, the one big idea, is contrary to what we found: To build a truly great company, it’s decision upon decision, action upon action, day upon day, month upon month. . . . It’s cumulative momentum and no one decision defines a great company.” Collins cites Walt Disney in theme

parcs and Walmart in retailing as examples of companies that were successful by executing a big idea brilliantly over a long period of time.

To find breakthrough ideas, some companies immerse a range of employees in solving marketing problems. Samsung’s Value Innovation Program (VIP) isolates product development teams of engineers, designers, and planners with a timetable and end date in the company’s center just south of Seoul, Korea, while 50 specialists help guide their activities. To help make tough trade-offs, team members draw “value curves” that rank attributes such as a product’s sound or picture quality on a scale from 1 to 5. To develop a new car, BMW mobilizes specialists in engineering, design, production, marketing, purchasing, and finance at its Research and Innovation Center or Project House.

Companies like Facebook and Google kickstart the creative problem-solving process by using the phrase, “How might we?” Tim Brown, CEO of IDEO, says IDEO asks “how might we” with each design challenge. “The ‘How’ part assumes there are solutions out there—it provides creative confidence,” Brown said. “The ‘Might’ part says we can put ideas out there that might work or might not—either way, it’s OK. And the ‘We’ part says we’re going to do it together and build on each other’s ideas.”

**Sources:** Steve Hamm, “Innovation: The View from the Top,” *BusinessWeek*, April 3, 2006, pp. 52–53; Jena McGregor, “The World’s Most Innovative Companies,” *BusinessWeek*, April 24, 2006, pp. 63–74; Rich Karlgaard, “Digital Rules,” *Forbes*, March 13, 2006, p. 31; Jennifer Rooney and Jim Collins, “Being Great Is Not Just a Matter of Big Ideas,” *Point*, June 2006, p. 20; Moon Ihwan, “Camp Samsung,” *BusinessWeek*, July 3, 2006, pp. 46–47; Mohanbir Sawhney, Robert C. Wolcott, and Inigo Arroniz, “The 12 Different Ways for Companies to Innovate,” *MIT Sloan Management Review* (Spring 2006), pp. 75–85; Victoria Barret, “Why Salesforce.com Ranks #1 on Forbes Most Innovative List,” *Forbes*, September 2012; Warren Berger, “The Secret Phrase Top Innovators Use,” *HBR Blog Network*, September 17, 2012.

Film studios are finding new ways to expand their movie franchises, as with Warner Bros. and *Batman*.



Source: Handout/MCT/Newscom

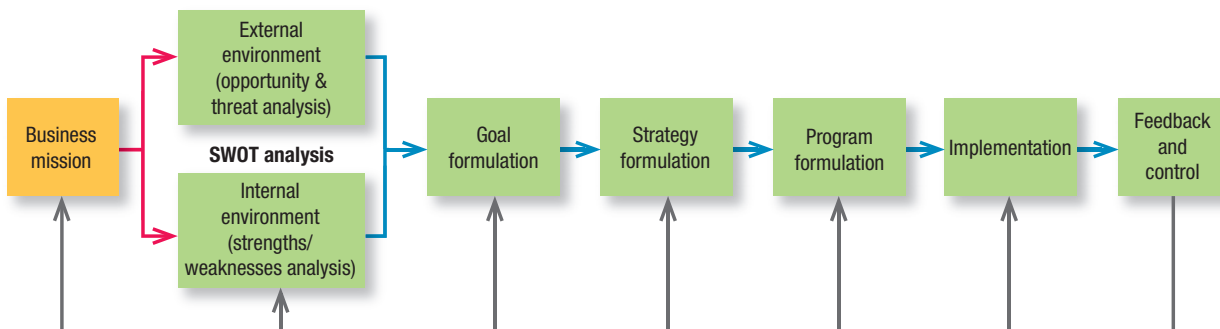
**MOVIE INDUSTRY** Netflix and the Internet started a decline in DVD sales that began in 2007 and has not stopped. The emergence of Redbox kiosks renting movies for \$1 a day added yet another threat to the movie business and DVD sales. Film studios clearly need to prepare for the day when films are primarily sold not through physical distribution but through satellite and cable companies' video-on-demand services. Although studios make 70 percent on a typical \$4.99 cable viewing versus 30 percent on the sale of a DVD, sales of DVDs still generate 70 percent of a film's profits. To increase electronic distribution without destroying their DVD business, studios are experimenting with new approaches. Some, such as Warner Bros., are releasing a DVD at the same time as online and cable versions of a movie. Disney cross-promotes its parent-friendly films at its theme parks, on its TV channels, and in its stores. Warner has entered the video game business (such as with *Dark Knight Batman*) in hopes of generating additional revenue on its movie characters. Warner Interactive typically spends \$30 million to \$40 million to make its games and generated close to \$1 billion in sales in 2011. Film studios are considering all possible scenarios as they rethink their business model in a world where the DVD is no longer king.

## Business Unit Strategic Planning

The business unit strategic-planning process consists of the steps shown in Figure 2.4. We examine each step in the sections that follow.

**| Fig. 2.4 |**

### The Business Unit Strategic-Planning Process



## THE BUSINESS MISSION

Each business unit needs to define its specific mission within the broader company mission. Thus, a television-studio-lighting-equipment company might define its mission as “To target major television studios and become their vendor of choice for lighting technologies that represent the most advanced and reliable studio lighting arrangements.” Notice this mission does not mention winning business from smaller television studios, offering the lowest price, or venturing into non-lighting products.

## SWOT ANALYSIS

The overall evaluation of a company’s strengths, weaknesses, opportunities, and threats is called SWOT analysis. It’s a way of monitoring the external and internal marketing environment.

**EXTERNAL ENVIRONMENT (OPPORTUNITY AND THREAT) ANALYSIS** A business unit must monitor key *macroenvironment forces* and significant *microenvironment factors* that affect its ability to earn profits. It should set up a marketing intelligence system to track trends and important developments and any related opportunities and threats.

Good marketing is the art of finding, developing, and profiting from these opportunities.<sup>31</sup> A **marketing opportunity** is an area of buyer need and interest that a company has a high probability of profitably satisfying. There are three main sources of market opportunities.<sup>32</sup> The first is to offer something that is in short supply. This requires little marketing talent, as the need is fairly obvious. The second is to supply an existing product or service in a new or superior way. How? The *problem detection method* asks consumers for their suggestions, the *ideal method* has them imagine an ideal version of the product or service, and the *consumption chain method* asks them to chart their steps in acquiring, using, and disposing of a product. This last method can often lead to a totally new product or service, which is the third main source of market opportunities.

Marketers need to be good at spotting opportunities. Consider the following:

- **A company may benefit from converging industry trends and introduce hybrid products or services new to the market.** Cell phone manufacturers have released phones with digital photo and video capabilities, Global Positioning Systems (GPS), and so on.
- **A company may make a buying process more convenient or efficient.** Mobil introduced Speed Pass, one of the first widely deployed RFID (radio-frequency identification) payment systems, to allow consumers to quickly and easily pay for gas at the pump.
- **A company can meet the need for more information and advice.** Angie’s List connects individuals with local home improvement and other services that have been reviewed by others.
- **A company can customize a product or service.** Timberland allows customers to choose colors for different parts of their boots, add initials or numbers, and select different stitching and embroidery.
- **A company can introduce a new capability.** Consumers can create and edit digital “iMovies” with the iMac and upload them to an Apple Web server or Web site such as YouTube to share with friends around the world.
- **A company may be able to deliver a product or service faster.** FedEx discovered a way to deliver mail and packages much more quickly than the U.S. Postal Service.
- **A company may be able to offer a product at a much lower price.** Pharmaceutical firms have created generic versions of brand-name drugs, and mail-order drug companies often sell for less.

To evaluate opportunities, companies can use **market opportunity analysis (MOA)** to ask questions like:

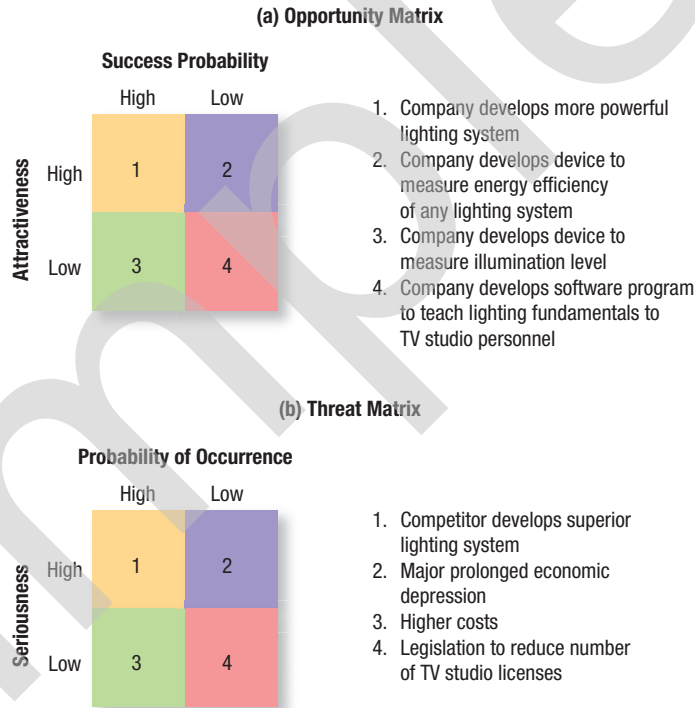
1. Can we articulate the benefits convincingly to a defined target market(s)?
2. Can we locate the target market(s) and reach them with cost-effective media and trade channels?
3. Does our company possess or have access to the critical capabilities and resources we need to deliver the customer benefits?
4. Can we deliver the benefits better than any actual or potential competitors?
5. Will the financial rate of return meet or exceed our required threshold for investment?

In the opportunity matrix in Figure 2.5(a), the best marketing opportunities facing the TV-lighting-equipment company appear in the upper-left cell (#1). The opportunities in the lower-right cell (#4) are too minor to consider. The opportunities in the upper-right cell (#2) and the lower-left cell (#3) are worth monitoring in the event that any improve in attractiveness and potential.



**| Fig. 2.5 |**

**Opportunity and Threat Matrices**



An **environmental threat** is a challenge posed by an unfavorable trend or development that, in the absence of defensive marketing action, would lead to lower sales or profit. Figure 2.5(b) illustrates the threat matrix facing the TV-lighting-equipment company. The threats in the upper-left cell are major because they have a high probability of occurrence and can seriously hurt the company. To deal with them, the company needs contingency plans. The threats in the lower-right cell are minor and can be ignored. The firm will want to carefully monitor threats in the upper-right and lower-left cells in the event they grow more likely or serious.

**INTERNAL ENVIRONMENT (STRENGTHS AND WEAKNESSES) ANALYSIS** It's one thing to find attractive opportunities and another to be able to take advantage of them. Each business needs to evaluate its internal strengths and weaknesses. Consider Loan Bright.<sup>33</sup>

**LOAN BRIGHT** At the Web site of Loan Bright, an online mortgage company, potential homebuyers can get a personalized list of lenders and available terms. At first, Loan Bright made its money by selling the homebuyer data to high-end mortgage lenders, including Wells Fargo Home Mortgage, Bank of America Mortgage, and Chase Home Mortgage. These firms turned the data into leads for their sales teams. But worrisome internal issues arose. For one thing, Loan Bright had to please every one of its big clients, yet each was becoming tougher to satisfy, eating up time and resources. The company's top managers gathered to analyze the market and Loan Bright's strengths and weaknesses. They decided that instead of serving a few choice clients, they would serve many more individual loan officers who responded to the company's Google ads and only wanted to buy a few leads. The switch required revamping the way Loan Bright salespeople brought in new business, including using a one-page contract instead of the old 12-page contract and creating a separate customer service department.

A SWOT-like analysis was instrumental in the development of the corporate strategy that drove Dell to years of success.

- Dell's *strength* was selling more effectively and efficiently directly to consumers than IBM and Compaq, its hardware competitors at the time.
- Dell's *weakness*, however, was that its brand was not as strong and it lacked a well-entrenched channel infrastructure and solid dealer relationships.



## GOAL FORMULATION

Once the company has performed a SWOT analysis, it can proceed to **goal formulation**, developing specific goals for the planning period. Goals are objectives that are specific with respect to magnitude and time.

Most business units pursue a mix of objectives, including profitability, sales growth, market share improvement, risk containment, innovation, and reputation. The business unit sets these objectives and then manages by objectives (MBO). For an MBO system to work, the unit's objectives must meet four criteria:

1. **They must be arranged hierarchically, from most to least important.** The business unit's key objective for the period may be to increase the rate of return on investment. Managers can increase profit by increasing revenue and reducing expenses. They can grow revenue, in turn, by increasing market share and prices.
2. **Objectives should be quantitative whenever possible.** The objective "to increase the return on investment (ROI)" is better stated as the goal "to increase ROI to 15 percent within two years."
3. **Goals should be realistic.** Goals should arise from an analysis of the business unit's opportunities and strengths, not from wishful thinking.
4. **Objectives must be consistent.** It's not possible to maximize sales and profits simultaneously.

Other important trade-offs include short-term profit versus long-term growth, deep penetration of existing markets versus development of new markets, profit goals versus nonprofit goals, and high growth versus low risk. Each choice calls for a different marketing strategy.<sup>34</sup>

Many believe adopting the goal of strong market share growth may mean foregoing strong short-term profits. Volkswagen has 15 times the annual revenue of Porsche—but Porsche's profit margins are seven times bigger than Volkswagen's. Other successful companies such as Google, Microsoft, and Samsung have maximized profitability and growth.

## STRATEGIC FORMULATION

Goals indicate what a business unit wants to achieve; **strategy** is a game plan for getting there. Every business must design a strategy for achieving its goals, consisting of a *marketing strategy* and a compatible *technology strategy* and *sourcing strategy*.

**PORTER'S GENERIC STRATEGIES** Michael Porter has proposed three generic strategies that provide a good starting point for strategic thinking: overall cost leadership, differentiation, and focus.<sup>35</sup>

- **Overall cost leadership.** Firms work to achieve the lowest production and distribution costs so they can underprice competitors and win market share. They need less skill in marketing. The problem is that other firms will usually compete with still-lower costs and hurt the firm that rested its whole future on cost.
- **Differentiation.** The business concentrates on achieving superior performance in an important customer benefit area valued by a large part of the market. The firm seeking quality leadership, for example, must make products with the best components, put them together expertly, inspect them carefully, and effectively communicate their quality.
- **Focus.** The business focuses on one or more narrow market segments, gets to know them intimately, and pursues either cost leadership or differentiation within the target segment.

The online air travel industry has provided a good example of these three strategies: Travelocity has pursued a differentiation strategy by offering the most comprehensive range of services to the traveler; Lowestfare has pursued a lowest-cost strategy for the leisure travel market; and Last Minute has pursued a niche strategy by focusing on travelers who have the flexibility to travel on very short notice. Some companies use a hybrid approach.

According to Porter, competing firms directing the same strategy to the same target market constitute a **strategic group**.<sup>36</sup> The firm that carries out the strategy best will make the most profits. Circuit City went out of business because it did not stand out in the consumer electronics industry as lowest in cost, highest in perceived value, or best in serving some market segment.

Porter draws a distinction between operational effectiveness and strategy. Competitors can quickly copy the operationally effective company using benchmarking and other tools, thus diminishing the advantage of operational effectiveness. Strategy, on the other hand, is "the creation of a unique and valuable position involving a different set of activities." A company can claim it has a strategy when it "performs different activities from rivals or performs similar activities in different ways."

**STRATEGIC ALLIANCES** Even giant companies—AT&T, Philips, and Starbucks—often cannot achieve leadership, either nationally or globally, without forming alliances with domestic or multinational companies that complement or leverage their capabilities and resources.

Just doing business in another country may require the firm to license its product, form a joint venture with a local firm, or buy from local suppliers to meet “domestic content” requirements. Many firms have developed global strategic networks, and victory is going to those who build the better one. The Star Alliance brings together 27 airlines, including Lufthansa, United Airlines, Singapore Airlines, Air New Zealand, and South Africa Airways, in a huge global partnership that allows travelers in 193 countries to make nearly seamless connections to hundreds of destinations.<sup>37</sup>

Many strategic partnerships take the form of marketing alliances. These fall into four major categories.

1. **Product or service alliances**—One company licenses another to produce its product, or two companies jointly market their complementary products or a new product. The credit card industry is a complicated combination of cards jointly marketed by banks such as Bank of America, credit card companies such as Visa, and affinity companies such as Alaska Airlines.
2. **Promotional alliances**—One company agrees to carry a promotion for another company’s product or service. In 2011, VIBE urban music and lifestyle magazine announced a promotional alliance with Hoop It Up, the world’s largest participatory 3-on-3 basketball tournament program, with competitions in 35 cities. The multi-platform partnership included VIBE digital, VIBE Cityguide App, editorial coverage and promotion in VIBE, and a highly integrated social media campaign with a strong VIBE branded presence at all Hoop It Up live events nationwide.<sup>38</sup>
3. **Logistics alliances**—One company offers logistical services for another company’s product. Warner Music Group and Sub Pop Records created the Alternative Distribution Alliance (ADA) in 1993 as a joint venture to distribute and manufacture records owned by independent labels. ADA is the leading “indie” distribution company in the United States for both physical and digital product.
4. **Pricing collaborations**—One or more companies join in a special pricing collaboration. Hotel and rental car companies often offer mutual price discounts.

Companies need to give creative thought to finding partners that might complement their strengths and offset their weaknesses. Well-managed alliances allow companies to obtain a greater sales impact at lower cost. To keep their strategic alliances thriving, corporations have begun to develop organizational structures to support them, and many have come to view the ability to form and manage partnerships as core skills called **partner relationship management (PRM)**.

After years of growth through acquisition and buying interests in two dozen companies, the world’s biggest wireless telecom operator, Vodafone, has looked outside for partners to help it leverage its existing assets.<sup>39</sup>

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**VODAFONE** To spur more innovation and growth, London-based Vodafone has embraced open source software and open platforms that allow it to tap into the creativity and skills of others. With its Web portal called Betavine, amateur or professional software developers can create and test their latest mobile applications on any network, not just Vodafone’s. While these developers retain intellectual property rights, Vodafone gains early exposure to the latest trends and ensures that innovations are compatible with its network. Some of the new apps include real-time train arrivals and departures, movie show times, and an Amazon.com widget with personalized details. With 404 million customers in 30 countries, the £46 billion company hasn’t had trouble finding help from interested corporate partners either. Dell has collaborated with Vodafone to design laptops and low-priced netbooks with built-in wireless broadband access over Vodafone’s networks.

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Rather than just form a partnership, a firm may choose to just acquire another firm. Kraft acquired Cadbury in 2010, in part due to Cadbury’s deep roots in emerging markets like India where Kraft did not have a strong presence. The acquisition also permitted Kraft to do a restructuring and divide its businesses into two companies: one focused on grocery products, the other on snack foods.<sup>40</sup>

## PROGRAM FORMULATION AND IMPLEMENTATION

Even a great marketing strategy can be sabotaged by poor implementation. If the unit has decided to attain technological leadership, it must strengthen its R&D department, gather technological intelligence, develop leading-edge products, train its technical sales force, and communicate its technological leadership.

Once they have formulated marketing programs, marketers must estimate their costs. Is participating in a particular trade show worth it? Will hiring another salesperson contribute to the bottom line? Activity-based cost accounting (ABC)—described in greater detail in Chapter 5— can help determine whether each marketing program is likely to produce sufficient results to justify its cost.<sup>41</sup>



Source: © Andrew Hasson/Alamy

Kraft acquired Cadbury in part because of its knowledge of and presence in emerging markets.

## marketing insight

### Businesses Charting a New Direction

Continued prosperity or even survival may depend on how quickly and effectively a firm is able to chart a new direction. Consider these examples.

- With consumers increasingly using smart phones for directions and maps, Garmin, the biggest maker of GPS devices, found sales declining rapidly. Its solution was to concentrate on partnering with automakers to embed GPS systems in dashboard “command centers.” Its selling points are that most smart phones are not optimized for use when driving and are thus dangerous to use behind the wheel. Hedging its bets, Garmin also has its own app available for smart phones.
- When Dow Chemical found its commodity chemical strategy was no longer profitable, new CEO Andrew Livirie decided to shift the company’s focus to unique, innovative high-margin products like solar shingles. Dow’s intent was to capitalize on four main trends:

Today’s businesses recognize that unless they nurture other stakeholders—customers, employees, suppliers, distributors—they may never earn sufficient profits for the stockholders. A company might aim to delight its customers, perform well for its employees, and deliver a threshold level of satisfaction to its suppliers. It must not violate any stakeholder group’s sense of fairness about the treatment it is receiving relative to the others.<sup>42</sup>

A dynamic relationship connects the stakeholder groups. A smart company creates a high level of employee satisfaction, which leads to higher effort, which leads to higher-quality products and services, which creates higher customer satisfaction, which leads to more repeat business, which leads to higher growth and profits, which leads to high stockholder satisfaction, which leads to more investment, and so on. This virtuous circle spells profits and growth.

According to McKinsey & Company, strategy is only one of seven elements—all of which start with the letter *s*—in successful business practice.<sup>43</sup> The first three—strategy, structure, and systems—are considered the “hardware” of success. The next four—style, skills, staff, and shared values—are the “software.”

The first “soft” element, *style*, means company employees share a common way of thinking and behaving. The second, *skills*, means employees have the skills needed to carry out the company’s strategy. *Staffing* means the company has hired able people, trained them well, and assigned them to the right jobs. The fourth element, *shared values*, means employees share the same guiding values. When these elements are present, companies are usually more successful at strategy implementation.<sup>44</sup>

clean energy, health and nutrition, consumerism in the emerging world, and infrastructure. R&D investments in those four areas totaled \$9 billion over a five-year period.

- The runaway success of Amazon’s Kindle, Apple’s iPad, and other tablet products have turned the book world upside down. Bookstores, libraries, and publishers are all recognizing that the sale and delivery of a book are now just a download away. Libraries are lending e-readers in addition to “stocking” e-books for lending. When the due date arrives, the book just disappears!
- The textbook market is being transformed by new entries such as Flat World Knowledge offering customizable, discount texts. Free e-textbooks at some schools allow users to scroll page by page, highlight and annotate, and share comments with classmates and instructors. Some students buy a new or used paper version of the e-textbook anyway. As one notes, “When I’m using the e-textbook, there’s the temptation to check e-mail, check my grades, or check Facebook.”

**Sources:** Erik Rhey, “A GPS Maker Shifts Gears,” *Fortune*, March 19, 2012; Geoff Colvin, “Dow’s New Direction,” *Fortune*, March 19, 2012; Ben Bradford, “Libraries Grapple with the Downside of E-books,” [www.npr.org](http://www.npr.org), May 29, 2012; Sharon Tregaskis, “Buy the Book,” *Cornell Alumni Magazine*, November–December 2012; “Great Digital Expectations,” *The Economist*, September 10, 2011.

## FEEDBACK AND CONTROL

A company's strategic fit with the environment will inevitably erode because the market environment changes faster than the company's seven Ss. Thus, a company might remain efficient yet lose effectiveness. Peter Drucker pointed out that it is more important to "do the right thing"—to be effective—than "to do things right"—to be efficient. The most successful companies, however, excel at both.

Once an organization fails to respond to a changed environment, it becomes increasingly hard to recapture its lost position. Organizations, especially large ones, are subject to inertia. It's difficult to change one part without adjusting everything else. Yet organizations can be changed through strong leadership, preferably in advance of a crisis. The key to organizational health is willingness to examine the changing environment and adopt new goals and behaviors. "Marketing Insight: Businesses Charting a New Direction" describes how some different companies and industries are adjusting to the new marketing realities that have changed their fortunes.

# The Nature and Contents of a Marketing Plan

Working within the plans set by the levels above them, marketing managers come up with a marketing plan for individual products, lines, brands, channels, or customer groups. A **marketing plan** is a written document that summarizes what the marketer has learned about the marketplace and indicates how the firm plans to reach its marketing objectives.<sup>45</sup> It contains tactical guidelines for the marketing programs and financial allocations over the planning period.<sup>46</sup>

A marketing plan is one of the most important outputs of the marketing process. It provides direction and focus for a brand, product, or company. It informs and motivates key constituents inside and outside an organization about its marketing goals and how these can be achieved. Nonprofit organizations use marketing plans to guide their fund-raising and outreach efforts, and government agencies use them to build public awareness of nutrition and stimulate tourism.

More limited in scope than a business plan, the marketing plan documents how the organization will achieve its strategic objectives through specific marketing strategies and tactics, with the customer as the starting point. It is also linked to the plans of other departments. Suppose a marketing plan calls for selling 200,000 units annually. The production department must gear up to make that many units, finance must arrange funding to cover the expenses, human resources must be ready to hire and train staff, and so on. Without the appropriate level of organizational support and resources, no marketing plan can succeed.

The most frequently cited shortcomings of current marketing plans, according to marketing executives, are lack of realism, insufficient competitive analysis, and a short-run focus. (See "Marketing Memo: Marketing Plan Criteria" for questions to ask in developing marketing plans.)

### marketing memo

### Marketing Plan Criteria

Here are some questions to ask in evaluating a marketing plan.

1. *Is the plan simple and succinct?* Is it easy to understand and act on? Does it communicate its content clearly and practically? Is it not unnecessarily long?
2. *Is the plan complete?* Does it include all the necessary elements? Does it have the right breadth and depth? Achieving the right balance between completeness and lots of detail and simplicity and clear focus is often the key to a well-constructed marketing plan.
3. *Is the plan specific?* Are its objectives concrete and measurable? Does it provide a clear course of action? Does it include specific activities, each with specific dates of completion, specific persons responsible, and specific budgets?
4. *Is the plan realistic?* Are the sales goals, expense budgets, and milestone dates realistic? Has a frank and honest self-critique been conducted to raise possible concerns and objections?

**Sources:** Adapted from Tim Berry and Doug Wilson, *On Target: The Book on Marketing Plans*, 2nd ed. (Eugene, OR: Palo Alto Software, 2000); Alexander Chernev, *The Marketing Plan Handbook* (Chicago, IL: Cerebellum Press, 2011); authors' experiences.

Most marketing plans cover one year in anywhere from 5 to 50 pages. Smaller businesses may create shorter or less formal marketing plans; corporations generally require highly structured documents. Every part of the plan must be described in considerable detail. Some companies post their marketing plan on an internal Web site so everyone can consult it and collaborate on changes. A marketing plan usually contains the following sections.

- **Executive summary and table of contents.**
- **Situation analysis.** This section presents relevant background data on sales, costs, the market, competitors, and the macroenvironment. How do we define the market, how big is it, and how fast is it growing? What are the relevant trends and critical issues? Firms will use all this information to carry out a SWOT analysis.
- **Marketing strategy.** Here the marketing manager defines the mission, marketing and financial objectives, and needs the market offering is intended to satisfy as well as its competitive positioning. All this requires inputs from other areas, such as purchasing, manufacturing, sales, finance, and human resources.
- **Marketing tactics.** Here the marketing manager outlines the marketing activities that will be undertaken to execute the marketing strategy.
  - The product or service offering section describes the key attributes and benefits that will appeal to target customers.
  - The pricing section specifies the general price range and how it might vary across different types of customers or channels, including any incentive or discount plans.
  - The channel section outlines the different forms of distribution, such as direct or indirect.
  - The communications section usually offers high-level guidance about the general message and media strategy. Firms will often develop a separate communication plan to provide the detail necessary for agencies and other media partners to effectively design the communication program.
- **Financial projections.** Financial projections include a sales forecast, an expense forecast, and a break-even analysis. On the revenue side is forecasted sales volume by month and product category, and on the expense side the expected costs of marketing, broken down into finer categories. The break-even analysis estimates how many units the firm must sell monthly (or how many years it will take) to offset its monthly fixed costs and average per-unit variable costs.

A more complex method of estimating profit is **risk analysis**. Here we obtain three estimates (optimistic, pessimistic, and most likely) for each uncertain variable affecting profitability, under an assumed marketing environment and marketing strategy for the planning period. The computer simulates possible outcomes and computes a distribution showing the range of possible rates of returns and their probabilities.
- **Implementation controls.** The last section outlines the controls for monitoring and adjusting implementation of the plan. Typically, it spells out the goals and budget for each month or quarter so management can review each period's results and take corrective action as needed.

## THE ROLE OF RESEARCH

Marketers need up-to-date information about the environment, the competition, and the selected market segments. Often, analysis of internal data is the starting point for assessing the current marketing situation, supplemented by marketing intelligence and research investigating the overall market, the competition, key issues, threats, and opportunities. As the plan is put into effect, marketers use research to measure progress toward objectives and identify areas for improvement.

Finally, marketing research helps marketers learn more about their customers' requirements, expectations, perceptions, satisfaction, and loyalty. Thus, the marketing plan should outline what marketing research will be conducted and when, as well as how the findings will be applied.

## THE ROLE OF RELATIONSHIPS

Although the marketing plan shows how the company will establish and maintain profitable customer relationships, it also affects both internal and external relationships. First, it influences how marketing staff work with

each other and with other departments to deliver value and satisfy customers. Second, it affects how the company works with suppliers, distributors, and partners to achieve the plan's objectives. Third, it influences the company's dealings with other stakeholders, including government regulators, the media, and the community at large.

## FROM MARKETING PLAN TO MARKETING ACTION

Marketers start planning well in advance of the implementation date to allow time for marketing research, analysis, management review, and coordination between departments. As each action program begins, they monitor ongoing results, investigate any deviation from plans, and take corrective steps as needed. Some prepare contingency plans; marketers must be ready to update and adapt marketing plans at any time.


The marketing plan typically outlines budgets, schedules, and marketing metrics for monitoring and evaluating results. With budgets, marketers can compare planned and actual expenditures for a given period. Schedules show when tasks were supposed to be completed and when they actually were. Marketing metrics track actual outcomes of marketing programs to see whether the company is moving forward toward its objectives, as we'll discuss in Chapter 4.

## Summary

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1. The value delivery process includes choosing (or identifying), providing (or delivering), and communicating superior value. The value chain is a tool for identifying key activities that create value and costs in a specific business.
2. Strong companies develop superior capabilities in managing core business processes such as new-product realization, inventory management, and customer acquisition and retention. In today's marketing environment, managing these core processes effectively means creating a marketing network in which the company works closely with all parties in the production and distribution chain, from suppliers of raw materials to retail distributors. Companies no longer compete—marketing networks do.
3. Market-oriented strategic planning is the managerial process of developing and maintaining a viable fit between the organization's objectives, skills, and resources and its changing market opportunities. The aim of strategic planning is to shape the company's businesses and products so they yield target profits and growth.
4. Strategic planning takes place at four levels: corporate, division, business unit, and product.
4. The corporate strategy establishes the framework within which the divisions and business units prepare their strategic plans. Setting a corporate strategy means defining the corporate mission, establishing strategic business units (SBUs), assigning resources to each, and assessing growth opportunities.
5. Marketers should define a business or business unit as a customer-satisfying process. Taking this view can reveal additional growth opportunities.
6. Strategic planning for individual businesses includes defining the business mission, analyzing external opportunities and threats, analyzing internal strengths and weaknesses, formulating goals, formulating strategy, formulating supporting programs, implementing the programs, and gathering feedback and exercising control.
7. Each product level within a business unit must develop a marketing plan for achieving its goals. The marketing plan is one of the most important outputs of the marketing process.

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# Applications

## Marketing Debate

### What Good Is a Mission Statement?

Mission statements are often the product of much deliberation and discussion. At the same time, critics claim they sometimes lack “teeth” and specificity or do not vary much from firm to firm and make the same empty promises.

**Take a position:** Mission statements are critical to a successful marketing organization *versus* Mission statements rarely provide useful marketing value.

## Marketing Discussion

### Marketing Planning

★ Consider Porter’s value chain and the holistic marketing orientation model. What implications do they have for marketing planning? How would you structure a marketing plan to incorporate some of their concepts?

## Marketing Excellence

### >> Electrolux

AB Electrolux, popularly known as Electrolux, is a global leader in home and professional appliances, including refrigerators, cookers, dishwashers, washing machines, vacuum cleaners, air conditioners, and small domestic appliances. It sells more than 50 million products in 150 countries. Headquartered in Stockholm, Sweden, Electrolux was founded in 1919, as a result of a merger between AB Lux, and Svenska Electron AB. In 2013, Electrolux had revenues of approximately \$14.5 billion and employed 61,000 people worldwide.

The Electrolux group consists of six business divisions, including four major appliances divisions, a small appliances division, and a professional products division. The core markets for Electrolux are Western Europe, North America, and Australia, New Zealand and Japan accounting for 65 percent of group sales. These markets are characterized by low population growth and high replacement product sales. The growth markets for Electrolux are Africa, Middle East and Eastern Europe, Latin America, and Southeast Asia and China contributing 35 percent to its sales. Given the rising living standards in the growth markets, Electrolux aims to increase its share of sales in these markets to 50 percent by introducing innovative product offerings in the next two years.

In 2013, Electrolux was among the top five global players in the household appliances industry, along with Whirlpool, the Haier Group, Bosch-Siemens, and LG Electronics. These companies contributed to nearly 50 percent of the global appliances sales. The major drivers of this industry are increased per capita income, changing lifestyles, consumer spending, housing activities, and urbanization. Economic growth in emerging markets is expected to boost the industry. The main competitive advantages of Electrolux are global

presence, consumer insight, design, professional legacy, Scandinavian heritage, wide product range, people and culture, and sustainability leadership.

The vision of the Electrolux Group is to become the best appliance company in the world as measured by its customers, employees, and shareholders. It bases its strategy on four pillars: innovative products, operational excellence, profitable growth, and dedicated employees. Its brand portfolio is strategically planned to serve luxury, premium, and mass markets. Alongside the Electrolux brand, the group has seven other strategic brands, namely Grand Cuisine, AEG, Zanussi, Eureka, Frigidaire, Molteni, and Westinghouse.

The “innovation triangle” at Electrolux encourages close cooperation between its marketing, R&D, and design functions to ensure faster reach to the market based on solid consumer insights. This enables Electrolux to use “same product architecture, differentiated design” to develop global modularized platforms. These platforms facilitate planning across divisions by making it easier to spread a successful launch from one market to another with adaptations to local preferences, and deliver greater customer value.

By maintaining strategic emphasis on increasing operational efficiency, Electrolux has restructured its production across divisions globally. Electrolux has shifted nearly 65 percent of its manufacturing from mainly Western Europe and North America to low-cost regions.

Pursuing its strategy of profitable growth, Electrolux continuously innovates to enhance its current products and ranges to penetrate existing markets. In 2013, it launched many innovative products in North America and Japan. Expanding to growth markets, Electrolux tapped the potential of the Chinese market by launching a full range of kitchen and laundry appliances of more than 60 products designed exclusively for China.

An important aspect of Electrolux’s strategy is to grow through mergers and acquisitions, and build

brand portfolio through horizontal integration. In the last 40 years, the group has had a series of acquisitions around the world that strengthened its global position through effective targeting and brand positioning in domestic and regional markets. Examples of such acquisitions include Zanussi in Europe; AEG in Germany; Frigidaire, Kelvinator, and White Westinghouse in North America; Refripar in Brazil; and the Olympic Group in Middle East and North Africa.

In September 2014, Electrolux unveiled its agreement to acquire the appliance business of General Electric, GE Appliances, for a cash consideration of \$3.3 billion. GE Appliances is one of the leading manufacturers of kitchen and laundry products in North America, and makes more than 90 percent of its sales in this region and runs its own distribution and logistics network. The acquisition also included a 48.4 percent shareholding in the Mexican appliance company Mabe that develops and manufactures a portion of the GE Appliances product range as part of a joint venture with GE. According to Keith McLaughlin, President and CEO of Electrolux, the acquisition was expected

to give the company more financial horsepower on its balance sheet to do even more business around the world.

With a growing portfolio of smartly positioned brands, global reach, innovations based on consumer insight, operational excellence and manufacturing efficiency, and increased financial power, Electrolux is all set to establish greater dominance in the global home appliances industry.

### Questions

1. Evaluate Electrolux's strategy in light of its vision and the global trends in the household appliance industry.
2. What benefits will Electrolux receive from the acquisition of GE Appliances? How does it fit in with the strategic direction of the group? What other strategic options can Electrolux pursue for future growth to achieve greater global dominance?

**Sources:** *Electrolux Group Annual Report 2013*, [www.electrolux.com](http://www.electrolux.com); "History," "Strategy," and "Markets," [www.electrolux.com](http://www.electrolux.com); Katarina Gustafsson, "Electrolux CEO Hints at More Deals After GE Appliances Purchase," *Bloomberg*, September 8, 2014.

## Marketing Excellence

### >> Emirates

Emirates is an airline company with a mission to provide high-quality commercial air transportation services. The company's global strategy aims at efficient competition, exceeding far beyond the limits of the Arabian Gulf and Middle Eastern markets. In 1985, the Dubai government, cognisant of the country's limited oil resources, launched the flag carrier as an alternative means to economic growth in the United Arab Emirates (UAE).

In the very beginning, the airline served 60 destinations in 42 countries across Europe, Middle East, Africa, Asia, and Australia. To keep up with the aggressive competition, Emirates emphasized product, equipment, and excellent service, and promoted a quality image. To do so, a multinational crew was recruited and a state-of-the-art fleet was purchased.

Within two decades, Emirates expanded its destinations and had remarkable financial returns. In 2014, it served 142 destinations in 80 countries from its hub in Dubai. It carried 44.5 million passengers, 5.1 million more than in 2012–13, and 2.3 million tons of airfreight, up by 8 percent, which contributed to the 26th consecutive year of profitable operations. The company has witnessed a steady growth over time since its inception – it carried 26 million passengers and served 101 destinations in 2010; these figures were 14.5 million and 83 in 2005.

Emirates operates four of the 10 longest, non-stop commercial flights in the world from Dubai to Los Angeles, San Francisco, Dallas, and Houston. It employs over 52,000 people from 162 different countries. Emirates has also been the world's most valuable airline brand for the third consecutive year, with a value of \$5.5 billion. It was awarded the prestigious Airline of the Year Award numerous times by Air Transport World, in addition to more than 400 other distinguished industry sector awards.

The company has a fleet aged 72 months (as of 2013), young in comparison to that of the industry, which is 140 months old. Good terms with Airbus and Boeing favored huge acquisitions of long-haul airplanes. These massive purchases have made Emirates the largest Airbus (A380) and Boeing (777) aircraft operator in the world, reflecting the global aspirations of the company.

Emirates is looked upon as an innovative organization in terms of technology due to its acquisition of the groundbreaking storage infrastructure in the Middle East. Additionally, the company is a major shareholder in luxury five-star hotels. Its performance is attributed to its customer-oriented approach revolving around the provision of a quality product: exclusive grade-A manufactured Boeing and Airbus aircrafts, premium flight services, and traveling at a competitive price. To cost-effectively carry out cargo and ground handling, catering services, information technology, and other travel amenities, Dnata supports Emirates' global ambitions. It is considered one of the largest and most competitive air service providers worldwide.

In terms of corporate positioning, Emirates is not looked upon as an Arab airline operating internationally but rather as a global company based out of the Middle East. This global positioning of the company has spawned aversion from competitors that considered Emirates as a serious threat in the market. These competitors are struggling to compete with Emirates, particularly due to its significant cost advantage. Some of these competitors unequivocally accused Emirates of benefiting from obscured UAE subsidies and exemptions on airport and aviation service charges. They also alleged that Emirates takes advantage of the UAE's sovereign borrowing status to secure loans below market rates.

Despite its many strengths, the airline company is not without faults. In its disregard for growing regional competition, Emirates overlooks very obvious flaws in its market strategy. For instance, Etihad Airways, an arm of the Abu Dhabi government, is offering products that appeal to travelers seeking premium services at competitive prices. Gulf Air, which is partly owned by the Abu Dhabi government, has also taken advantage of the open skies policy to gain free access to the Dubai airport. Emirates has also been massively acquiring aircrafts and inflating the size of its fleets. While this represents vast investments, the implications are far-reaching. To be able to have long-term advantages, the company should become a shareholder in the Airbus or Boeing companies. The airline endures cost pressure as fuel costs represent

leading expenditures accounting for 30.7 percent (2013) of the overall operating costs. The company's human resources are already lean and it is cost effective on other cost components. For how long can Emirates hold on to its cost-cutting strategy without paying attention to competitors?

### Questions

1. How has Emirates been able to build a strong brand in the competitive airline industry worldwide?
2. What are some of the apparent weaknesses with the company's strategic direction? How can the airline address them?
3. With the decline of fuel prices globally, airline companies continue to reap the benefits. What impact will this have on Emirates' business strategy in the future?

**Sources:** *Emirates Group Annual Report 2013–2014*; John F. O'Connell, "An Examination of the World's Most Profitable Airline in 2009/10: the Emirates business model," John F. O'Connell and George Williams, eds., *Air Transport in the 21st Century: Key Strategic Developments* (UK: Ashgate, 2012), p. 421; Justin Bachman, "Emirates Flies Into America, and U.S. Airlines Grow Anxious," *BusinessWeek*, October 2, 2014; Kenneth Rapoza, "Why UAE And Qatar Have The 'World's Best' Airlines," *Forbes*, April 1, 2014; Scott McCartney, "Emirates, Etihad and Qatar Make Their Move on the U.S.," *Wall Street Journal*, November 6, 2014; Andrew Parker and Simeon Kerr, "Emirates: In a sweet spot," *Financial Times*, December 8, 2013; "Emirates increases competition with Etihad and Qatar as it adds Chicago to its US network," Centre for Aviation (CAPA), March 5, 2014; Jad Mouawad, "Emirates' Ambitions Worry European Rivals," *New York Times*, February 12, 2011, p. BU1; Also see Timothy Clark's, President and CEO of Emirates, speech to the International Aviation Club, September 13, 2012.

# Sample Marketing Plan Pegasus Sports International

## 1.0 Executive Summary

Pegasus Sports International is a start-up aftermarket inline skating accessory manufacturer. Inline skates have four or five wheels arranged in a single line and are often called Rollerblades by the general public after one of the early pioneers in the category. In addition to the aftermarket products, Pegasus is developing SkateTours, a service that takes clients out, in conjunction with a local skate shop, and provides them with an afternoon of skating using inline skates and some of Pegasus's other accessories such as SkateSails.

The aftermarket skate accessory market has been largely ignored. Although there are several major manufacturers of the skates themselves, the accessory market has not been addressed. This provides Pegasus with an extraordinary opportunity for market growth. Skating is a booming sport. Currently, most of the skating is recreational. There are, however, a growing number of skating competitions, including team-oriented competitions such as skate hockey as well as individual competitions such as speed skate racing. Pegasus will work to grow these markets and develop the skate transportation market, a more utilitarian use of skating.

Pegasus has outlined a go-to-market marketing program that combines highly relevant products and services with an evolving direct-to-consumer distribution strategy to tap into customer passions and loyalty.

## 2.0 Situation Analysis

Pegasus is entering its first year of operation. Its products have been well received, and marketing will be key to the development of brand and product awareness as well as the growth of the customer base. Pegasus International offers several different aftermarket skating accessories, serving the growing inline skating industry.

## 2.1 Market Summary

Pegasus possesses good information about the market and knows a great deal about the common attributes of the most prized customer. This information will be leveraged to better understand who is served, what their specific needs are, and how Pegasus can better communicate with them.

### Target Markets

- Recreational
- Fitness
- Speed
- Hockey
- Extreme

### 2.1.1 Market Demographics

The profile for the typical Pegasus customer consists of the following geographic, demographic, and behavior factors:

#### Geographics

- Pegasus has no set geographic target area. By leveraging the expansive reach of the Internet and multiple delivery services, Pegasus can serve both domestic and international customers.
- The total targeted population is 31 million users.

#### Demographics

- There is an almost equal ratio between male and female users.
- Ages 13–46, with 48 percent clustering around ages 23–34. The recreational users tend to cover the widest age range,

TABLE 2.4

Target Market Forecast

Target Market Forecast							
Potential Customers	Growth	2015	2016	2017	2018	2019	CAGR*
Recreational	10%	19,142,500	21,056,750	23,162,425	25,478,668	28,026,535	10.00%
Fitness	15%	6,820,000	7,843,000	9,019,450	10,372,368	11,928,223	15.00%
Speed	10%	387,500	426,250	468,875	515,763	567,339	10.00%
Hockey	6%	2,480,000	2,628,800	2,786,528	2,953,720	3,130,943	6.00%
Extreme	4%	2,170,000	2,256,800	2,347,072	2,440,955	2,538,593	4.00%
Total	10.48%	31,000,000	34,211,600	37,784,350	41,761,474	46,191,633	10.48%

\*Compound Annual Growth Rate

including young users through active adults. The fitness users tend to be ages 20–40. The speed users tend to be in their late 20s and early 30s. The hockey players are generally in their teens through their early 20s. The extreme segment is of similar age to the hockey players.

- Of the users who are over 20, 65 percent have an undergraduate degree or substantial undergraduate coursework.
- The adult users have a median personal income of \$47,000.

### Behavior Factors

- Users enjoy fitness activities not as a means for a healthy life but as intrinsically enjoyable activities in themselves.
- Users spend money on gear, typically sports equipment.
- Users have active lifestyles that include some sort of recreation at least two to three times a week.

### 2.1.2 Market Needs

Pegasus is providing the skating community with a wide range of accessories for all variations of skating. The company seeks to fulfill the following benefits that are important to its customers:

- **Quality craftsmanship.** The customers work hard for their money and do not enjoy spending it on disposable products that work for only a year or two.
- **Well-thought-out designs.** The skating market has not been addressed by well-thought-out products that serve skaters' needs. Pegasus's industry experience and personal dedication to the sport will provide it with the needed information to produce insightfully designed products.
- **Customer service.** Exemplary service is required to build a sustainable business that has a loyal customer base.

### 2.1.3 Market Trends

Pegasus will distinguish itself by marketing products not previously available to skaters. The emphasis in the past has been to sell skates and very few replacement parts. The number of skaters is not restricted to any one single country, continent, or age group, so there is a world market. Pegasus has products for virtually every group of skaters.

The fastest-growing segment of this sport is the fitness skater (Table 2.4). Therefore, the marketing is being directed toward this group. BladeBoots will enable users to enter establishments without having to remove their skates. BladeBoots will be aimed at the recreational skater, the largest segment. SkateAids, on the other hand, are great for everyone.

The sport of skating will also grow through SkateSailing. This sport is primarily for the medium-to-advanced skater, and its growth potential is tremendous. The sails that Pegasus has manufactured have been sold in Europe, following a pattern similar to windsurfing. Windsailing originated in Santa Monica but did not take off until it had already grown big in Europe.

Another trend is group skating. More and more groups are getting together on skating excursions in cities all over the world.

For example, San Francisco has night group skating that attracts hundreds of people. The market trends are showing continued growth in all directions of skating.

### 2.1.4 Market Growth

With the price of skates going down due to competition by so many skate companies, the market has had steady growth throughout the world, although sales have slowed down in some markets. The growth statistics for 2015 were estimated to be about 31 million units. More and more people are discovering—and in many cases rediscovering—the health benefits and fun of skating.

## 2.2 SWOT Analysis

The following SWOT analysis captures the key strengths and weaknesses within the company and describes the opportunities and threats facing Pegasus.

### 2.2.1 Strengths

- In-depth industry experience and insight
- Creative yet practical product designers
- The use of a highly efficient, flexible business model utilizing direct customer sales and distribution

### 2.2.2 Weaknesses

- The reliance on outside capital necessary to grow the business
- A lack of retailers who can work face to face with the customer to generate brand and product awareness
- The difficulty of developing brand awareness as a start-up company

### 2.2.3 Opportunities

- Participation within a growing industry
- Decreased product costs through economies of scale
- The ability to leverage other industry participants' marketing efforts to help grow the general market

### 2.2.4 Threats

- Future/potential competition from an already-established market participant
- A continued slump in the economy that could have a negative effect on people's spending of discretionary income on fitness/recreational products
- The release of a study that calls into question the safety of skating or the inability to prevent major skating-induced traumas

## 2.3 Competition

Pegasus Sports International is forming its own market. Although there are a few companies that do make sails and foils that a few skaters are using, Pegasus is the only brand that is truly designed for and by skaters. The few competitors' sails on the market are

not designed for skating but for windsurfing or for skateboards. In the case of foils, storage and carrying are not practical. There are different indirect competitors who are manufacturers of the actual skates. After many years in the market, these companies have yet to become direct competitors by manufacturing accessories for the skates that they make.

## 2.4 Product Offering

Pegasus Sports International now offers several products:

- The first product that has been developed is BladeBoots, a cover for the wheels and frame of inline skates, which allows skaters to enter places that normally would not allow them in with skates on. BladeBoots come with a small pouch and belt that converts to a well-designed skate carrier.
- The second product is SkateSails. These sails are specifically designed for use while skating. Feedback that Pegasus has received from skaters indicates skatesailing could become a very popular sport. Trademarking this product is currently in progress.
- The third product, SkateAid, will be in production by the end of the year. Other ideas for products are under development but will not be disclosed until Pegasus can protect them through pending patent applications.

## 2.5 Keys to Success

The keys to success are designing and producing products that meet market demand. In addition, Pegasus must ensure total customer satisfaction. If these keys to success are achieved, it will become a profitable, sustainable company.

## 2.6 Critical Issues

As a start-up business, Pegasus is still in the early stages. The critical issues are for Pegasus to:

- Establish itself as the premier skating accessory company.
- Pursue controlled growth that dictates that payroll expenses will never exceed the revenue base. This will help protect against recessions.
- Constantly monitor customer satisfaction, ensuring that the growth strategy will never compromise service and satisfaction levels.

## 3.0 Marketing Strategy

The key to the marketing strategy is focusing on the speed, health and fitness, and recreational skaters. Pegasus can cover about 80 percent of the skating market because it produces products geared toward each segment. Pegasus is able to address all of the different segments within the market because, although each segment is distinct in terms of its users and equipment, its products are useful to all of the different segments.

### 3.1 Mission

Pegasus Sports International's mission is to provide the customer with the finest skating accessories available. "We exist to attract

and maintain customers. With a strict adherence to this maxim, success will be ensured. Our services and products will exceed the expectations of the customers."

## 3.2 Marketing Objectives

- Maintain positive, strong growth each quarter (notwithstanding seasonal sales patterns).
- Achieve a steady increase in market penetration.
- Decrease customer acquisition costs by 1.5 percent per quarter.

## 3.3 Financial Objectives

- Increase the profit margin by 1 percent per quarter through efficiency and economy-of-scale gains.
- Maintain a significant research and development budget (as a percentage relative to sales) to spur future product developments.
- Achieve a double- to triple-digit growth rate for the first three years.

## 3.4 Target Markets

With a projected world skating market of 31 million that is steadily growing (statistics released by the Sporting Goods Manufacturers Association), the niche has been created. Pegasus's aim is to expand this market by promoting SkateSailing, a new sport that is popular in both Santa Monica and Venice Beach in California. The breakdown of participation in skating is as follows: 1+ percent speed (growing), 8 percent hockey (declining), 7 percent extreme/aggressive (declining), 22 percent fitness (nearly 7 million—the fastest growing), and 61 percent recreational (first-timers). Pegasus's products are targeting the fitness and recreational groups because they are the fastest growing. These groups are gearing themselves toward health and fitness, and combined they can easily grow to 85 percent (or 26 million) of the market in the next five years.

## 3.5 Positioning

Pegasus will position itself as the premier aftermarket skating accessory company. This positioning will be achieved by leveraging Pegasus's competitive edge: industry experience and passion. Pegasus is a skating company formed by skaters for skaters. Its management is able to use its vast experience and personal passion for the sport to develop innovative, useful accessories for a broad range of skaters.

## 4.0 Marketing Tactics

The single objective of the marketing program is to position Pegasus as the premier skating accessory manufacturer, serving the domestic market as well as the international market. The marketing program will seek to first create customer awareness concerning the offered products and services and then develop the customer base. Specifically, Pegasus's marketing program is composed of the following approaches to product, pricing, distribution, and communications.

## 4.1 Product

Several of Pegasus's currently developed products have patents pending, and local market research indicates that there is great demand for these products. Pegasus will achieve fast, significant market penetration through a solid business model, long-range planning, and a strong management team that is able to execute this exciting opportunity. The three principals on the management team have more than 30 years of combined personal and industry experience. This extensive experience provides Pegasus with the empirical information as well as the passion to provide the skating market with much-needed after-market products.

## 4.2 Pricing

This will be based on a per-product retail price. Because of the advantages of selling directly, higher margins can be achieved with premium pricing that will still appeal to customer segments.

## 4.3 Distribution

Pegasus will sell its products initially through its Web site. In addition to allowing for higher margins, this direct-to-the-consumer approach will allow Pegasus to maintain a close relationship with customers, which is essential for producing products that have a true market demand. By the end of the year, Pegasus also will have developed relationships with different skate shops and will begin to sell some of its products through retailers.

## 4.4 Communications

The message that Pegasus will seek to communicate is that it offers the best-designed, most useful skating accessories. This message will be communicated through a variety of methods. The first will be the Pegasus Web site, which will provide a rich source of product information and offer consumers the opportunity to purchase. A lot of time and money will be invested in the site to provide the customer with the perception of total professionalism and utility for Pegasus's products and services.

The second marketing method will be advertisements placed in numerous industry magazines. The skating industry is supported by several different glossy magazines designed to promote the industry as a whole. In addition, a number of smaller periodicals serve the smaller market segments within the skating industry. The last method of communication is the use of printed sales literature. The two previously mentioned marketing methods will create demand for the sales literature, which will be sent out to customers. The cost of the sales literature will be fairly minimal because it will use the already-compiled information from the Web site.

## 4.5 Marketing Research

Pegasus is blessed with the good fortune of being located in the center of the skating world: Venice, California. It will be able to leverage this opportune location by working with many of the different skaters who live in the area. Pegasus was able to test all of its products not only with its principals, who are accomplished skaters, but also with the many other dedicated and "newbie"

**TABLE 2.5** Break-Even Analysis

Monthly Units Break-Even	62
Monthly Sales Break-Even	\$ 7,760
Assumptions:	
Average Per-Unit Revenue	\$125.62
Average Per-Unit Variable Cost	\$ 22.61
Estimated Monthly Fixed Cost	\$ 6,363

users located in Venice. The extensive product testing by a wide variety of users provided Pegasus with valuable product feedback and has led to several design improvements.

## 5.0 Financials

This section will offer the financial overview of Pegasus related to marketing activities. Pegasus will address break-even analysis, sales forecasts, and expense forecast and indicate how these activities link to the marketing strategy.

### 5.1 Break-Even Analysis

The break-even analysis (Table 2.5) indicates that \$7,760 will be required in monthly sales revenue to reach the break-even point.

### 5.2 Sales Forecast

Pegasus feels that the sales forecast figures are conservative. It will steadily increase sales as the advertising budget allows. Although the target market forecast (Table 2.4) listed all of the potential customers divided into separate groups, the sales forecast (Table 2.6) groups customers into two categories: recreational and competitive. Reducing the number of categories allows the reader to quickly discern information, making the chart more functional.

**TABLE 2.6** Monthly Sales Forecast

Sales	2015	2016	2017
Recreational	\$455,740	\$598,877	\$687,765
Competitive	\$ 72,918	\$ 95,820	\$110,042
Total Sales	\$528,658	\$694,697	\$797,807
<b>Direct Cost of Sales</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Recreational	\$ 82,033	\$107,798	\$123,798
Competitive	\$ 13,125	\$ 17,248	\$ 19,808
Subtotal Cost of Sales	\$ 95,158	\$125,046	\$143,606

### 5.3 Expense Forecast

The expense forecast will be used as a tool to keep the department on target and provide indicators when corrections/modifications are needed for the proper implementation of the marketing plan.

TABLE 2.7

## Milestones

Plan					
Milestones	Start Date	End Date	Budget	Manager	Department
Marketing plan completion	1/1/15	2/1/15	\$ 0	Stan	Marketing
Web site completion	1/1/15	3/15/15	\$20,400	outside firm	Marketing
Advertising campaign #1	1/1/15	6/30/15	\$ 3,500	Stan	Marketing
Advertising campaign #2	3/1/15	12/30/15	\$ 4,550	Stan	Marketing
Development of the retail channel	1/1/15	11/30/15	\$ 0	Stan	Marketing
Totals			\$28,450		

TABLE 2.8

## Marketing Expense Budget

	2015	2016	2017
Web Site	\$ 25,000	\$ 8,000	\$ 10,000
Advertisements	\$ 8,050	\$ 15,000	\$ 20,000
Printed Material	\$ 1,725	\$ 2,000	\$ 3,000
Total Sales and Marketing Expenses	\$ 34,775	\$ 25,000	\$ 33,000
Percent of Sales	6.58%	3.60%	4.14%
Contribution Margin	\$398,725	\$544,652	\$621,202
Contribution Margin/Sales	75.42%	78.40%	77.86%

## 6.0 Controls

The purpose of Pegasus's marketing plan is to serve as a guide for the organization. The following areas will be monitored to gauge performance:

- Revenue: monthly and annual
- Expenses: monthly and annual

- Customer satisfaction
- New-product development

## 6.1 Implementation

The milestones identify the key marketing programs (Table 2.7). It is important to accomplish each one on time and on budget (Table 2.8).

## 6.2 Marketing Organization

Stan Blade will be responsible for the marketing activities.

## 6.3 Contingency Planning

### Difficulties and Risks

- Problems generating visibility, a function of being an Internet-based start-up organization
- An entry into the market by an already-established market competitor

### Worst-Case Risks

- Determining that the business cannot support itself on an ongoing basis
- Having to liquidate equipment or intellectual capital to cover liabilities

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