

# MARKETING

## CHAPTER 1

*Defining Marketing for the 21<sup>st</sup> Century*

17<sup>th</sup> March 2016

### THE SCOPE OF MARKETING

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Define marketing: 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. (American Marketing Association)

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.

#### **What is Marketed?**

##### 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 70–30 services-to-goods mix. 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.

## **EVENTS**

Marketers promote time-based events, such as major trade shows, artistic performances, and company anniversaries.

## **EXPERIENCES**

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

## **PERSONS**

Artists, musicians, CEOs, physicians, high-profile lawyers and financiers, and other professionals all get help from celebrity marketers.

**PLACES** Cities, states, regions, and whole nations compete to attract tourists, residents, factories, and company headquarters

**PROPERTIES** Properties are intangible rights of ownership to either real property (real estate) or financial property (stocks and bonds)

## **ORGANIZATIONS**

Organizations work to build a strong, favorable, and unique image in the minds of their target publics.

**INFORMATION** The production, packaging, and distribution of information are major industries.

## **IDEAS**

Every market offering includes a basic idea. Products and services are platforms for delivering some idea or benefit. Social marketers are busy promoting such ideas as "Friends Don't Let Friends Drive Drunk" and "A Mind Is a Terrible Thing to Waste."

## Who Markets?

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.

Negative demand	<b>Consumers dislike the product and may even pay to avoid it.</b>
Non-existent demand	<b>Consumers may be unaware of or uninterested in the product.</b>
Latent demand	<b>Consumers may share a strong need that cannot be satisfied by an existing product.</b>
Declining demand	<b>Consumers begin to buy the product less frequently or not at all.</b>
Irregular Demand	<b>Consumer purchases vary on a seasonal, monthly, weekly, daily, or even hourly basis.</b>
Full demand	<b>Consumers are adequately buying all products put into the marketplace.</b>
Overfull demand	<b>More consumers would like to buy the product than can be satisfied.</b>
Unwholesome demand	<b>Consumers may be attracted to products that have undesirable social consequences.</b>

## MARKETS

Traditionally, a “market” was a physical place where buyers and sellers gather 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).

## **Key customer Markets**

***Consumer Markets*** Companies selling mass consumer goods and services such as juices, cosmetics, athletic shoes, and air travel spend a great deal of time establishing a strong brand image by developing a superior product and packaging, ensuring its availability, and backing it with engaging communications and reliable service.

***Business Markets*** Companies selling business goods and services often face well-informed professional buyers skilled at evaluating competitive offerings. Business buyers buy goods to make or resell a product to others at a profit. Business marketers must demonstrate how their products will help achieve higher revenue or lower costs. Advertising can play a role, but the sales force, the price, and the company's reputation may play a greater one.

***Global Markets*** Companies in the global marketplace must decide which countries to enter; how to enter each (as an exporter, licensor, joint venture partner, contract manufacturer, or solo manufacturer); how to adapt product and service features to each country; how to price products in different countries; and how to design communications for different cultures. They face different requirements for buying and disposing of property; cultural, language, legal and political differences; and currency fluctuations. Yet, the payoff can be huge.

***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. Lower selling prices affect the features and quality the seller can build into the offering. Much government purchasing calls for bids, and buyers often focus on practical solutions and favor the lowest bid in the absence of extenuating factors.<sup>15</sup>

**MARKETPLACES, MARKETSPACES, AND METAMARKETS** The *marketplace* is physical, such as a store you shop in; the *marketspace* is digital, as when you shop on the Internet.<sup>16</sup> Northwestern University's Mohan

Sawhney has proposed the concept of a *metamarket* to describe a cluster of complementary products and services closely related in the minds of consumers, but spread across a diverse set of industries.

Metamarkets are the result of marketers packaging a system that simplifies carrying out these related product/service activities. The automobile metamarket consists of automobile manufacturers, new and used car dealers, financing companies, insurance companies, mechanics, spare parts dealers, service shops, auto magazines, classified auto ads in newspapers, and auto sites on the Internet.

A car buyer will engage many parts of this metamarket, creating an opportunity for *metamediaries* to assist him or her in moving seamlessly through them.

Edmund's (www.edmunds.com) lets a car buyer find the stated features and prices of different automobiles and easily click to other sites to search for the lowest-price dealer for financing, accessories, and used cars. Metamediaries also serve other metamarkets, such as home ownership, parenting and baby care, and weddings.<sup>17</sup>

### **Core Marketing Concepts**

Needs, Wants and Demands

*Needs* are the basic human requirements such as for air, food, water, clothing, and shelter.

Wants can manifest from the desire for recreation, education, and entertainment.

*Demands* are wants for specific products backed by an ability to pay.

### **Segmentation, Targeting and Positioning**

"I have thoroughly explained what STP means in class. Please refer to your Principles of Marketing notes to understand what STP is" – Tashin Lutfur

## **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 McDonald's carries many associations in people's minds that make up its image: hamburgers, cleanliness, convenience, courteous service, and golden arches. All companies strive to build a brand image with as many strong, favorable, and unique brand associations as possible.

## 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 to her. 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 the 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.

## 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, 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.

# Supply Chain

The supply chain is a longer channel stretching from raw materials to components to finished products carried to final buyers. The supply chain for coffee may start with Ethiopian farmers who plant, tend, and pick the coffee beans, selling their harvest to wholesalers or perhaps a Fair Trade cooperative. If sold through the 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.

# 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 for certain parts from Alcoa to reduce the car's weight, or engineered plastics from Saudi Basic Industries Corporation (SABIC) instead of steel.

# 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.

## **The new Marketing Realities**

# Major Societal Forces

Today, major, and sometimes interlinking, societal forces have created new marketing behaviors, opportunities, and challenges. Here are 12 key ones.

- *Network information technology*. The digital revolution has created an Information Age that promises to lead to more accurate levels of production, more targeted communications, and more relevant pricing.
- *Globalization*. Technological advances in transportation, shipping, and

communication have made it easier for companies to market in, and consumers to buy from, almost any country in the world. International travel has continued to grow as more people work and play in other countries.

- *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, such as the massive telecom company Telefónica CTC in Chile and the international airline British Airways in the United Kingdom.
- *Heightened competition.* Intense competition among domestic and foreign brands raises marketing costs and shrinks profit margins. Brand manufacturers are further buffeted by powerful retailers that market their own store brands. Many strong brands have become megabrands and extended into a wide variety of related product categories, presenting a significant competitive threat.
- *Industry convergence.* Industry boundaries are blurring as companies recognize new opportunities at the intersection of two or more industries. The computing and consumer electronics industries are converging, for example, as Apple, Sony, and Samsung release a stream of entertainment devices from MP3 players to plasma TVs and camcorders. Digital technology fuels this massive convergence.<sup>21</sup>
- *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. Dick’s Sporting Goods has grown from a single bait-and-tackle store in Binghamton, New York, into a 300-store sporting goods retailer in 30 states. Part of its success springs from the interactive features of its stores. Customers can test golf clubs in indoor ranges, sample shoes on its footwear track, and shoot bows in its archery range.



## **New Company Capabilities**

These major societal forces create complex challenges for marketers, but they have also generated a new set of capabilities to help companies cope and respond.

*Marketers can use the Internet as a powerful information and sales channel.*

The Internet augments marketers' geographical reach to inform customers and promote products worldwide

*Marketers 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.

*Marketers can tap into social media to amplify their brand message.* Marketers can feed information and updates to consumers via blogs and other postings, support online communities, and create their own stops on the Internet superhighway.

*Marketers can facilitate and speed external communication among customers.* Marketers can also create or benefit from online and offline "buzz" through brand advocates and user communities.

Marketers can send ads, coupons, samples, and information to customers who have requested them or given the company permission to send them.

Marketers can reach consumers on the move with mobile marketing.

Companies can make and sell individually differentiated goods.

Companies can improve purchasing, recruiting, training, and internal and external communications.

Companies can facilitate and speed up internal communication among their employees by using the Internet as a private intranet.

Companies can improve their cost efficiency by skillful use of the Internet.

# COMPANY ORIENTATION TOWARD MARKET PLACE

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## 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 makes sense in developing countries such as China, where the largest PC manufacturer, Legend (principal owner of Lenovo Group), and domestic appliances giant Haier take 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.<sup>40</sup>

## 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. 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.

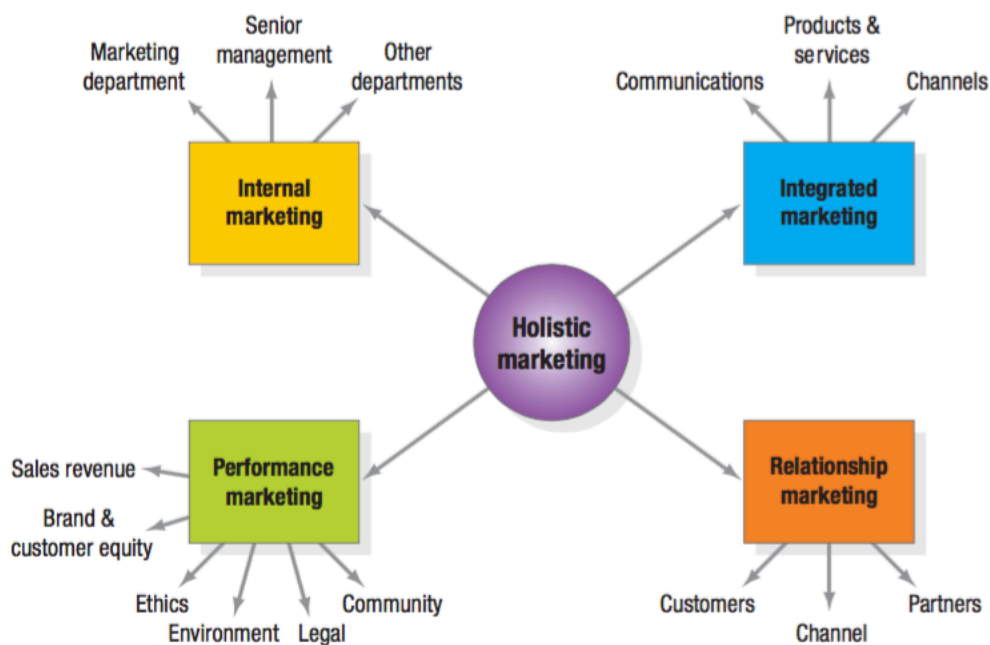
## The Marketing Concept

The **marketing concept** emerged in the mid-1950s<sup>41</sup> 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 perfect

computer for its target market. Rather, it provides product platforms on which each person customizes the features he or she desires in the computer.

## The Holistic Marketing Concept

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.



## 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

# 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.

# 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. It ensures that everyone in the organization embraces appropriate marketing principles, especially senior management. 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.

# Performance Marketing

**Performance marketing** requires understanding the financial and nonfinancial returns to business and society from marketing activities and programs. 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.

**SOCIAL RESPONSIBILITY MARKETING** Because the effects of marketing extend beyond the company and the customer to society as a whole, marketers must consider the ethical, environmental, legal, and social context of their role and activities.