



Ninth Edition

Marketing

Real People, Real Choices

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Welcome to the World of Marketing

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Courtesy of Michael Baumwoll



Meet Michael Baumwoll

▼ A **Decision Maker** at Twitter

I am currently an Account Manager at Twitter. After I graduated from Lafayette College in 2009, my career focused on digital media and advertising with brief stints in entrepreneurship. For the first five years of my professional life, I worked for an advertising technology company with the goal of revolutionizing the digital media landscape. Similar to exchanges like Nasdaq and eBay, this company built a platform that allowed websites (publishers) to auction off their advertising space to the highest advertising bidder. I joined this young, growth startup and quickly learned the robust, technical, and (highly) relationship-driven industry of digital advertising. Working in a fun, supportive, Google-esque culture, I was able to grow personally and ultimately manage relationships with major advertising agencies and their digital media-buying arms, called “trading desks.” I was also lucky enough to manage a small group of coworkers and help them develop their understanding of the advertising landscape, technical skills and—most importantly, to me—themselves, professionally.

Simultaneously, I co-founded an iPhone application called BarSocial with the goal of creating a social media platform for nightlife. On the app, users connected with their friends and other bar-hoppers to determine the best places to go out. It was, essentially, Twitter for bars. BarSocial was live in the App Store for more than a year and was briefly featured on Wired.com. I quickly learned the facets of maintaining and building a technology business. Building BarSocial was one of the most exhilarating and challenging experiences I’ve ever had; I’d highly recommend building something of your own if the opportunity presents itself.

With a passion for social media, I now have the pleasure of working at one of the world’s most recognized technology companies, Twitter. Twitter is a social media platform that democratizes the world by providing a forum for users to share their experiences and views. Similar to my previous professional experience, Twitter has successfully built a culture designed to help their employees thrive professionally. My role at Twitter is to manage and develop relationships with advertisers and their creative and media agencies. To simplify, I am a Twitter consultant helping to demystify the ever-growing world of Twitter and showcase the power of its advertising solutions to my clients.

What I do when I’m not working:

Watching movies, spending time with my family, and breaking it down on the dance floor.

A job-related mistake I wish I hadn’t made:

I avoided speaking up in meetings where I could have contributed value.

Business book I’m reading now:

Contagious: Why Things Catch On by Jonah Berger

My motto to live by:

Always focus on developing relationships—new and old. They will be the driving force in your professional and personal growth.

What drives me:

The opportunity to impact the world in my own personal way.

Don’t do this when interviewing with me:

Be inauthentic

My pet peeve:

Talking during movies



Here's my **problem...**

Real People, Real Choices

Twitter is a public microphone that gives those with a handheld device or access to the Internet the ability to step up and speak. It gives each of us the opportunity to share our experiences and thoughts 24 hours a day, 7 days a week. As a result, Twitter has become a democratized platform for human expression and thought.

Just like the product externally, Twitter's management team creates an environment that encourages team members to speak up and share ideas. Employees are constantly reminded of their value and given channels to be creative and productive. It's an internal cultural choice that was made in the early days of Twitter to reflect the founders' beliefs in transparency and cooperation.

Internally at Twitter, there are multiple ways to share ideas and feedback. There are e-mail chains, discussion boards, water cooler conversations, feedback forms, and many other methods that allow you to express yourself. Although there are a number of options, it's (a) difficult to navigate and select the right method to share your idea and (b) hard to determine who the ideal person is with whom to share it.

As a member of the sales team, my focus is to understand the needs and concerns of my clients and relay that information to the Twitter team. In addition, and just as important, as an involved member of the Twitter community, it's my responsibility to contribute to building an even stronger product and experience for users. The question then becomes: how do we harness the innovation within Twitter's walls and leverage it to solve challenges the team faces with employees, consumers, and marketers? And subsequently, how can we track it?

Michael considered his Options 1·2·3

1 **Option** Make a case for the management team to hold weekly meetings to discuss ideas and innovations within Twitter. This change would provide a dedicated time for team members to share their opinions, views, and ideas in an hour-long weekly meeting. Employees feel they are part of the process when they help to make decisions for the company. And different teams could interact with one another to come up with productive ideas because of this cross-pollination that only comes from

face-to-face encounters. However, some employees are hesitant to voice their concerns and suggestions in such a public forum. Also getting a bunch of busy people to give up an hour of their time each week might not go over well with some people.

2 **Option** Build an internal online tool to allow employees to share, build, and measure ideas (i.e., a Twitter within Twitter). Like Twitter, the forum would allow any team member to carefully think and craft ideas he or she could then share with coworkers or with entire teams. Employees could vote on ideas to showcase demand for an idea or product. And we could measure the success of the platform by tracking posts, votes, comments, etc. On the other hand, some employees might be reluctant to post ideas to the group if everyone votes on the ones they like and don't like. It's also not clear that there would be enough demand for merit the time and other resources to build this app that could be devoted to building business for Twitter instead.

3 **Option** Share ideas on Twitter to galvanize support and subsequently share findings with the Twitter team. This approach would include the external Twitter community to help shape Twitter's product vision. We could get real-time feedback from potential customers about the ideas we're considering and engage them as partners rather than just as customers. On the other hand, we wouldn't be able to share some sensitive issues with non-Twitter employees. And we couldn't always be confident about the perspectives we get—not everyone necessarily has the experience and perspective to weigh in on how to run a complex business like ours.

Now, put yourself in Michael's shoes. Which option would you choose, and why?

You Choose

Which **Option** would you choose, and **why**?

☐ **Option 1** ☐ **Option 2** ☐ **Option 3**

See what **option** Michael chose in **MyMarketingLab™**

MyMarketingLab™

★ **Improve Your Grade!**

Over 10 million students improved their results using the Pearson MyLabs. Visit **mymktlab.com** for simulations, tutorials, and end-of-chapter problems.

Chapter 1

1.1

Marketing: What Is It?

OBJECTIVE

Explain what marketing is, the marketing mix, what can be marketed, and the value of marketing.

(pp. 4–11)

consumer

The ultimate user of a good or service.

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.¹

Marketing. People either love it or hate it. The crazy part of this is that whether they love it or hate it, most folks really do not understand what marketing really is! How about when a Chris Cornell concert in Australia entices fans from Peoria, Illinois, to travel around the globe just to scream in ecstasy alongside the Aussies. Is that marketing? When Donald Trump and Hillary Clinton spend millions to get your vote—is that marketing? And then, of course, there are those e-mails that fill your inbox from Amazon.com, suggesting products that might entice you to let go of some hard-earned cash. Yes, these are all examples of marketing. And that's just scratching the surface.

Of course you already know a lot about marketing; it's been a part of your life from day one. As one of millions of **consumers**, you are the ultimate user of a good or service. Every time you purchase or use your car, your clothes, your lunch at the cafeteria (whether an old-school burger or a vegan version), a movie, or a haircut, you are part of the marketing process. In this book, we'll tell you why—and why you should care.

Indeed, consumers like you (and your humble authors!) are at the center of all marketing activities. By the way, when we refer to consumers, we don't just mean individuals. Organizations, whether a company, government, sorority, or charity, are made up of consumers.

Here's the key: *Marketing is first and foremost about satisfying consumer needs.* We like to say that the consumer is king (or queen), but it's important not to lose sight of the fact that the seller also has needs—to make a profit, to remain in business, and even to take pride in selling the highest-quality products possible. Products are sold to satisfy both consumers' and marketers' needs; it's a two-way street.

When you ask people to define **marketing**, you get many answers. Some people say, "That's what happens when a pushy salesman tries to sell me something I don't want." Many people say, "Oh, that's simple—TV commercials." Students might answer, "That's a course I have to take before I can get my business degree." Each of these responses has a grain of truth to it, but the official definition of marketing the American Marketing Association adopted in 2013 is as follows:

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.²

The basic idea behind this somewhat complicated definition is that marketing is all about delivering value to everyone whom a transaction affects. That's a long-winded explanation. Let's take it apart to understand exactly what marketing is all about.

"Marketing Is the Activity, Institutions, and Processes..."

As we will discuss throughout this book, marketing includes a great number of activities—from top-level market planning by the chief marketing officer (CMO) of a big company to the creation of a Facebook page by your university. The importance organizations assign to marketing activities varies a lot. Top management in some firms is marketing oriented (especially when the chief executive officer, or CEO, comes from the marketing ranks), whereas in other companies marketing is an afterthought. Ten percent of the *Fortune* 100 U.S. CEOs, more than one out of five (21%) of the Financial Times Stock Exchange (FTSE) 100 CEOs in the United Kingdom, and 40 percent of those with consumer and healthcare firms come from a marketing background—so stick with us!³

In the text we discuss many of the activities of marketing that include:

- Better understanding of customer needs through marketing research
- Selecting the people or organizations in the market that are your best bets for success
- Developing the product
- Pricing the product
- Getting the product to the consumer

We'll also learn about a variety of institutions that help firms create a better marketing program:

- Advertising agencies that firms work with to create and deliver a variety of marketing communication activities including traditional advertising as well as newer digital communications, sales promotion, and research activities
- Marketing research firms such as Nielsen that provide data vital to the planning and implementation of successful marketing programs
- The traditional media
- The Internet and social media
- Governments that enforce laws and regulations to make sure marketing occurs in a fair and ethical manner
- Logistics firms that get the product to the consumer most efficiently
- Retailers that interact directly with the final customer

We also talk about some of the processes marketers use in combination with these institutions to satisfy customer needs—the end-all for all marketing activities.

Whether it is a giant global producer of consumer products such as Proctor & Gamble or a smaller organization such as Eskimo Joe's of Stillwater, Oklahoma (we'll talk more about Eskimo Joe's in Chapter 12), a marketer's decisions affect—and are affected by—the firm's other activities. Marketing managers must work with financial and accounting officers to figure out whether products are profitable, to set marketing budgets, and to determine prices. They must work with people in manufacturing to be sure that the new iPhone is produced on time and in the right quantities for those avid iPhone fans that camp out in front of Apple stores to get their hands on the new model. Marketers also must work with research-and-development specialists to create products that meet consumers' needs.

“... for Creating, Communicating, Delivering, and Exchanging: The Marketing Mix...”

As we said, marketing is about satisfying needs. To do this, marketers need many tools. The **marketing mix** is the marketer's strategic toolbox. It consists of the tools the organization uses to create a desired response among a set of predefined consumers. These tools include the product itself, the price of the product, the promotional activities (such as advertising) that introduce it to consumers, and the places where it is available. We commonly refer to the elements of the marketing mix as the **Four Ps**: *product, price, promotion, and place*.

Although we talk about the Four Ps as separate parts of a firm's marketing strategy, in reality, product, price, promotion, and place decisions are interdependent. Decisions about any single one of the four are affected by, and affect every other marketing mix decision. For example, what if Superdry (a rapidly growing Japanese apparel company) decides to introduce a leather biker jacket that is higher end than the ones it makes now? If the company uses more expensive materials to make this item, it has to boost the selling price to cover these higher costs; this also signals to consumers that the garment is more upscale. In addition, Superdry would have to create advertising and other promotional strategies to convey a top-quality image. Furthermore, the firm must include high-end retailers like Neiman Marcus,

marketing mix

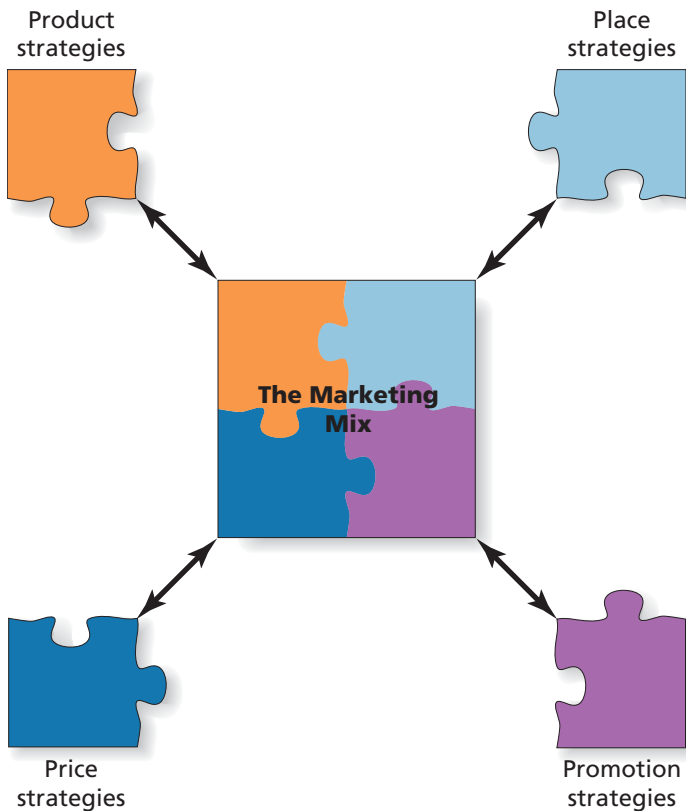
A combination of the product itself, the price of the product, the promotional activities that introduce it, and the place where it is made available, that together create a desired response among a set of predefined consumers.

Four Ps

Product, price, promotion, and place.

Figure 1.1  **Snapshot** | The Marketing Mix

The marketing mix is the marketer's strategic toolbox.

**product**

A tangible good, service, idea, or some combination of these that satisfies consumer or business customer needs through the exchange process; a bundle of attributes including features, functions, benefits, and uses.

promotion

The coordination of a marketer's communication efforts to influence attitudes or behavior.

place

The availability of the product to the customer at the desired time and location.

channel of distribution

The series of firms or individuals that facilitates the movement of a product from the producer to the final customer.

price

The assignment of value, or the amount the consumer must exchange to receive the offering.

Bergdorf Goodman, and Bloomingdale's in its distribution strategy to ensure that shoppers who seek out high-end items will come across the jacket. Thus, all the pieces in the puzzle we call the marketing mix work together. As  Figure 1.1 shows, each P is interconnected with each of the other three Ps. This shows us that the activities of each of the Four Ps must be coordinated with each of the other three Ps.

We'll examine these components of the marketing mix in detail later in this book. For now, let's briefly look at each of the Four Ps to gain some more insight into their role in the marketing mix.

Product

What have you spent your money and time to get recently? A pizza on Friday night, a concert on the weekend, a new tennis racket so you can beat all your buddies on the court, maybe even a "wonderful" Marketing textbook? These are all products. A **product** can be a good, a service, an idea, a place, a person—whatever a person or organization offers for sale in the exchange. Creating new products is vital to the success and even the life of an organization. The product, one aspect of the marketing mix, includes the design and packaging of a good as well as its physical features and any associated services, such as free delivery.

The product is a combination of many different elements, all of which are important to the product's success. Think about your college education—an expensive product. You are buying more than the boring lecture in that chemistry class (or the awesome lecture in your marketing class). You are also paying for the health center with a weight room, pool and a rock-climbing wall, for the classroom building, and maybe for the bragging rights of graduating from a "Big Ten" school.

Promotion

Although we all are familiar with advertising, **promotion**, also referred to as *marketing communication*, includes many different activities marketers undertake to inform consumers about their products and to encourage potential customers to buy these products. Marketing communication takes the form of personal selling, TV advertising, store coupons, billboards, magazine ads, publicity releases, web pages, social media sites, and a lot more. Today marketers are quickly moving much of their energy and money to devising and implementing digital marketing communications including mobile marketing, location-based marketing, behavioral digital marketing, and, of course, social media marketing.

Place

Place refers to the availability of the product to the customer at the desired time and location. This P relates to a **channel of distribution**, which is the series of firms or individuals that facilitates the movement of a product from the producer to the final customer. For clothing or electronics, this channel includes local retailers as well as other outlets, such as retail sites on the web that strive to offer the right quantity of products in the right styles at the right time.

Price

Price—we all know what price is—it's the amount you have to pay for the pizza, the concert tickets, the tennis racket, and, yes, this book. Price is the assignment of value,

or the amount the consumer must exchange to receive the offering. Marketers often turn to price to increase consumers' interest in a product. This happens when they put an item on sale, but in other cases marketers actually try to sell a product with a higher price than people are used to if they want to communicate that it's high quality or cutting edge. For example, designer clothes and accessories are priced so high that only a few consumers can afford them. Not many of us can afford a Prada Python/Crocodile Arcade-Stripe Frame Satchel Bag priced at \$9,600 or a pair of Valentino Rockstud Metallic Leather Mid-Heel Pumps at \$1,045. If you can, you probably don't need to take this course!

At the heart of every marketing act—big or small—is something we refer to as an “exchange relationship.” An **exchange** occurs when a person gives something and gets something else in return. The buyer receives an object, service, or idea that satisfies a need and the seller receives something he or she feels is of equivalent value. Today, most exchanges occur as monetary transactions in which one party surrenders currency (in the form of cash, check, credit card, or even Bitcoin) in return for a good or a service. But there are also other kinds of exchanges. A politician, for example, can agree to work toward certain goals in exchange for your vote, city officials may offer you a cleaner environment if you recycle, and health officials tell you that you can save lives (perhaps your own) if you wash your hands properly.

For an exchange to occur, at least two people or organizations must be willing to make a trade, and each must have something the other wants. Both parties must agree on the value of the exchange and how it will be carried out. Each party also must be free to accept or reject the other's terms for the exchange. Under these conditions, a knife-wielding robber's offer to “exchange” your money for your life does *not* constitute a valid exchange. In contrast, although someone may complain that a store's prices are “highway robbery,” an exchange occurs if he or she still forks over the money to buy something there—even if he or she still grumbles about it weeks later.

To complicate things a bit more, everyone does not always agree on the terms of the exchange. Think, for example, about movie piracy. That's what happens when a new Leonardo DiCaprio blockbuster is available on street corners for a few dollars—or free on *Bit Torrent*—before it even opens in theaters.

“... Offerings ...”: What Can We Market?

Is there any limit to what marketers can and will market? Marketing applies to more than just the new iPhone and the Microwavable S'Mores Maker your mother bought you before you came to college.

Some of the best marketers come from the ranks of services companies such as American Express or not-for-profit organizations like Greenpeace. Politicians, athletes, and performers use marketing to their advantage (the Kardashians have figured it out). Ideas such as political systems (democracy, totalitarianism), religion (Christianity, Islam), and art (realism, abstract) also compete for acceptance in a “market-place.” In this book, we'll refer to any good, service, person, place, or idea that we can market as a product, even though what you buy may not take a physical form.

Consumer Goods and Services

Consumer goods are the tangible products that individual consumers purchase for personal or family use. **Services** are intangible products that we pay for and use but don't own. Service transactions contribute more than 75 percent

exchange

The process by which some transfer of value occurs between a buyer and a seller.

consumer goods

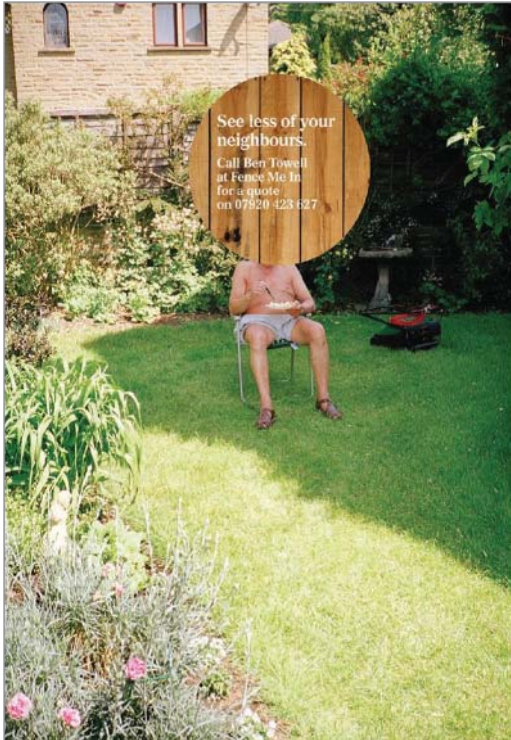
The goods individual consumers purchase for personal or family use.

services

Intangible products that are exchanged directly between the producer and the customer.



A robbery is NOT a valid exchange.



Brass Agency

This British fence company offers to exchange money for the guarantee of privacy.

business-to-business marketing

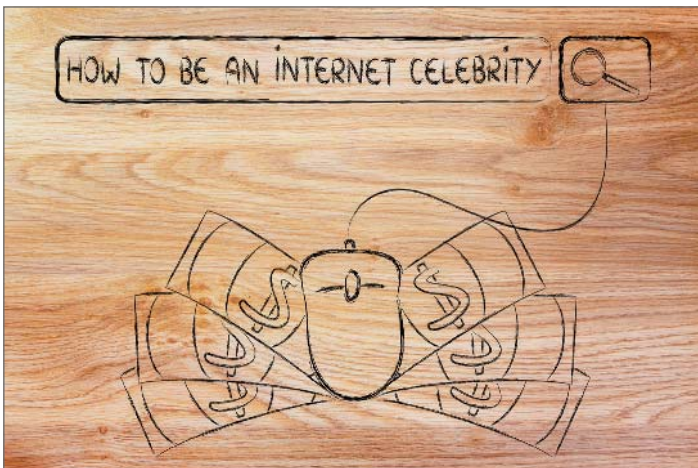
The marketing of goods and services from one organization to another.

industrial goods

Goods that individuals or organizations buy for further processing or for their own use when they do business.

e-commerce

The buying or selling of goods and services electronically, usually over the Internet.



iStockphoto/23RF

Today, almost anyone can have their “15 minutes of fame” online.

of the gross domestic product (GDP) in the U.S. and other developed countries.⁴ Marketers need to understand the special challenges that arise when they market an intangible service rather than a tangible good.⁵ Because both goods and services are products, it’s more accurate to say “goods and services” rather than “products and services.”

Business-to-Business Goods and Services

Business-to-business marketing is about the exchange of goods and services from one organization to another. Although we usually think of marketing in terms of the piles of consumer goods that beg for our dollars every day, the reality is that businesses and other organizations buy a lot more stuff than consumers do. They purchase these **industrial goods** for further processing or to use in their own business operations. For example, automakers buy tons of steel to use in the manufacturing process, and they buy computer systems to track manufacturing costs and other information essential to operations.

Similarly, the growth of **e-commerce** isn’t just about things people buy for themselves—books, CDs, cars, and so forth—on the Internet. Just like in the offline world, much of the real online action is in the area of business-to-business marketing.

Not-for-Profit Marketing

As we noted previously, you don’t have to be a businessperson to use marketing principles. Many **not-for-profit organizations** (also known as **nongovernmental organizations [NGOs]**), including museums, zoos, and even churches, practice

the marketing concept to survive. Local governments adopt marketing techniques to attract new businesses and industries to their counties and cities. Even states are getting into the act: We’ve known for a long time that I♥NY, but recently Kentucky and Oregon hired advertising agencies to develop statewide branding campaigns (the official state motto of Oregon is now “Oregon. We love dreamers.”).⁶

Idea, Place, and People Marketing

Marketing principles also encourage people to endorse ideas or to change their behaviors in positive ways. Many organizations work hard to “sell” everything from fatherhood involvement to shelter-pet adoption to stopping teen bullying. We are all familiar with tourism marketing that promotes wonderful places with slogans such as, “Smile! You are in Spain!” or “Live your myth in Greece.”

You may have heard the expression “Stars are made, not born.” There’s a lot of truth to that. Adele may have a killer voice and Chris Davis may have a red-hot baseball bat, but

talent alone doesn’t make thousands or even millions of people buy CDs or stadium seats. Some of the same principles that go into “creating” a celebrity apply to you. An entertainer—whether Miranda Lambert, Selena Gomez, or Drake—must “package” his or her talents, identify a market that is likely to be interested, and work hard to gain exposure to these potential customers by appearing in the right musical venues.

In the same way, everyday people like you “package” themselves when they create a great social media profile. And this person-marketing perspective is more valid than ever—now that almost everyone can find “15 minutes of fame” on a website, a blog, or a YouTube video. We even have a new word—*microcelebrity*—to describe those who are famous, not necessarily to millions of people but certainly to hundreds or even thousands who follow their comings and goings on

Facebook, Flickr, or Twitter. Whether it's the guy who sang the "Bed Intruder Song," Boosy, Gary the Goat, "Alex from Target," or even Grumpy Cat, the Internet churns out hundreds of temporarily famous people who probably won't be remembered for long.

"... Value for Customers ..."

Most successful firms today practice the **marketing concept**—that is, marketers first identify consumer needs and then provide products that satisfy those needs to ensure the firm's long-term profitability. Practicing the marketing concept is, of course, more complex and requires that marketers understand the most basic elements of successful marketing.

These elements—needs, wants, benefits, demand, a market, and a marketplace—are listed and explained in Table 1.1.



This Italian ketchup brand illustrates how the condiment satisfies a simple need.

Table 1.1 | Value for Customers

Term	Definition	In Practice
Need	The difference between a consumer's actual state and some ideal or desired state	If the difference is big enough, the consumer is motivated to take action to satisfy the need. When you're hungry, you buy a snack. If you're not happy with your hair, you get a new hairstyle.
Want	A desire for a particular product we use to satisfy a need in specific ways that are culturally and socially influenced	If two students are hungry, the first student may be a health nut who fantasizes about gulping down a big handful of trail mix, whereas the second person may lust for a greasy cheeseburger and fries. The first student's want is trail mix, whereas the second student's want is fast food (and some antacid for dessert).
Benefit	A product delivers a benefit when it satisfies a need or want.	After several years when sales were down, McDonald's responded to the number-one request of its customers, breakfast all day. The new program attracted lapsed customers back and increased lunch business. ⁷
Demand	Consumers' want for a product coupled with the means to obtain it.	Demand for a snappy red BMW convertible includes the people who want the car minus those who can't afford to buy or lease one.
Market	All the consumers who share a common need that can be satisfied by a specific product and who have the resources, willingness, and authority to make the purchase.	The availability of scholarships, government aid, and loans has increased the market for college education as more students can afford an education.
Marketplace	Location where buying and selling occurs	Today the exchange may be face-to-face, or through a mail-order catalog, a TV shopping network, an eBay auction, or a phone app.

not-for-profit organizations (also known as nongovernmental organizations [NGOs])

Organizations with charitable, educational, community, and other public service goals that buy goods and services to support their functions and to attract and serve their members.

marketing concept

A management orientation that focuses on identifying and satisfying consumer needs to ensure the organization's long-term profitability.

need

The recognition of any difference between a consumer's actual state and some ideal or desired state.

want

The desire to satisfy needs in specific ways that are culturally and socially influenced.

benefit

The outcome sought by a customer that motivates buying behavior that satisfies a need or want.

demand

Customers' desires for products coupled with the resources needed to obtain them.

market

All the customers and potential customers who share a common need that can be satisfied by a specific product, who have the resources to exchange for it, who are willing to make the exchange, and who have the authority to make the exchange.

marketplace

Any location or medium used to conduct an exchange.



Reynaldo Vazconcelos/News/Alamy Live News

Uber and other ride-sharing services are disrupting the transportation marketplace.

rentrepreneurs

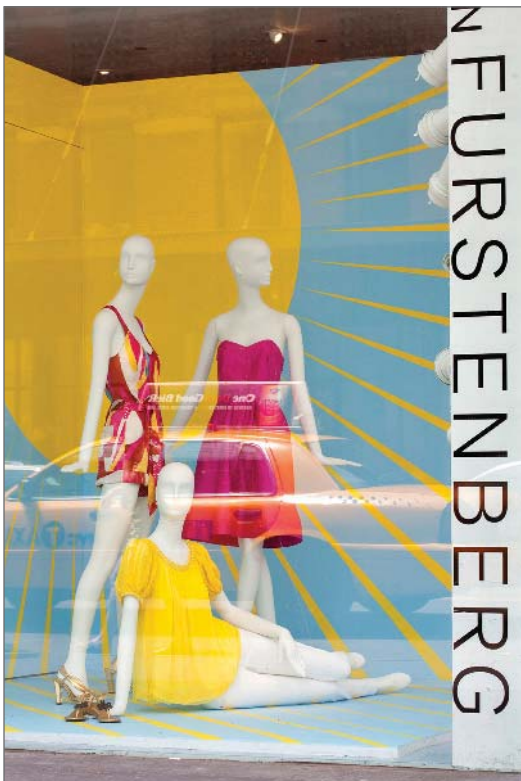
Enterprising consumers who make money by renting out their possessions when they aren't using them.

collaborative consumption

A term used to refer to the activities practiced by rentrepreneurs.

utility

The usefulness or benefit that consumers receive from a product.



Matsart Ludowicz/Hemis/Alamy Stock Photo

Rent the Runway is a service started by two recent business school grads. It rents high-end dresses from designers like Diane Von Furstenberg, for about one-tenth of the cost of buying the same garment in a store. A woman can rent a dress for four nights; it's shipped directly to her doorstep much like a Netflix video. The customer returns the dress in a prepaid envelope and the rental price includes the cost of dry cleaning. Place utility at work!

For example, you may *need* transportation but *want* a new Mazda MX-5 Miata convertible. The Miata will not only get you from Point A to Point B; it also will provide the *benefit* of a cool image. Unfortunately, it's possible that Mazda can't count you in their estimates of *demand* or the size of the *market* for the MX-5 because you can't afford such an expensive car. In that case you need to check out a different *marketplace*, a used car lot.

Of course, marketplaces continue to evolve. Increasingly consumers, especially younger ones, would rather rent than purchase the products they use. One of the biggest changes is in the domain of car sales, which are plummeting among newer drivers. Innovative start-ups like Zipcar figured out that many people, especially those who live in urban areas, would rather rent a ride by the hour instead of dealing with the hassles of car loans and hunting for parking spots when they weren't using their cars. Now

the big guys are testing the waters. Volkswagen's Quicar project rents cars in Hanover, Germany, whereas BMW continues its international expansion of the DriveNow electric vehicle car-sharing program from Europe to the U.S.

A second change in the transportation marketplace is ride-sharing. Uber has become a global phenomenon based on this concept. Uber drivers use their own cars and work when they want to. Customers prefer Uber to traditional taxis; many say that Uber drivers treat you better than taxi drivers and because they use their own cars you aren't as likely to find a "science project" in the back seat.⁸

Millions of enterprising consumers in turn are becoming **rentrepreneurs** as they make money by renting out their stuff when they aren't using it; they're offering everything from barbecue grills and power tools to Halloween costumes and who knows what else on sites like Zilok in France and Craigslist in the United States. Some analysts refer to this mushrooming trend as **collaborative consumption**.

Marketing Creates Utility

Marketing transactions create **utility**, which refers to the usefulness or benefit we receive when we use a good or service. When it ensures that people have the type of product they want, where and when they want it, the marketing system makes our lives easier. Utility is what creates value.

Marketing processes create several different kinds of utility to provide value to consumers:

- **Form utility** is the benefit marketing provides by transforming raw materials into finished products, as when a dress manufacturer combines silk, thread, and zippers to create a bridesmaid's gown.
- **Place utility** is the benefit marketing provides by making products available where customers want them. The most sophisticated evening gown sewn in New York's garment district is of little use to a bridesmaid in Kansas City if it isn't shipped to her in time.
- **Time utility** is the benefit marketing provides by storing products until they are needed. Some women rent their wedding gowns instead of buying them and wearing them only once (they hope!).
- **Possession utility** is the benefit marketing provides by allowing the consumer to own, use, and enjoy the product. The bridal store provides access to a range of styles and colors that would not be available to a woman outfitting a bridal party on her own.

As we've seen, marketers provide utility in many ways. Now, let's see how customers and others "take delivery" of this added value.

Value for Clients and Partners

Marketing doesn't just meet the needs of consumers—it meets the needs of diverse stakeholders. The term **stakeholders** refers to buyers, sellers, or investors in a company, community residents, and even citizens of the nations where goods and services are made or sold—in other words, any person or organization that has a "stake" in the outcome. Thus, marketing is about satisfying everyone involved in the marketing process.

Value for Society at Large

Is it possible to contribute in a positive way to society and the earth and still contribute to your paycheck? Target, one of the nation's largest retailers, seems to think so. The company announced in its 2012 corporate responsibility report that two of its top five priorities are environmental sustainability and responsible sourcing. For example, one goal Target set is to ensure that the seafood sold in its stores is 100 percent sustainable (caught without negatively impacting ecosystems) and traceable (fish can be traced through the supply chain from point of harvest to final product). Also, the retailer gives back to its customers and helps them save money. Through its reusable-bag program, Target has returned more than \$7 million to customers (those who bring their reusable bags save five cents per bag off their bill). And more than half of the chain's apparel line is labeled "machine wash cold," meaning customers reduce energy when they wash their clothes (thereby lowering customers' electricity bills).⁹



Green marketing in action.

stakeholders

Buyers, sellers, or investors in a company; community residents; and even citizens of the nations where goods and services are made or sold; in other words, any person or organization that has a "stake" in the outcome.

1.2 When Did Marketing Begin? The Evolution of a Concept

OBJECTIVE

Explain the evolution of the marketing concept.

(pp. 11–15)

Now that we have an idea of how the marketing process works, let's take a step back and see how this process worked (or didn't work) in "the old days." Although it just sounds like common sense to us, believe it or not, the notion that businesses and other organizations succeed when they satisfy customers' needs actually is a pretty recent idea. Before the 1950s, organizations only needed to make products faster and cheaper to be successful. Let's take a quick look at how the marketing discipline has developed since then. Table 1.2 tells us about a few of the more recent events in this marketing history.

Table 1.2 | Marketing's "Greatest Hits"

Year	Marketing Event
1961	Procter & Gamble launches Pampers.
1964	Blue Ribbon Sports (now known as Nike) ships its first shoes.
1971	Cigarette advertising is banned on radio and TV.
1980	Ted Turner creates CNN.
1981	MTV begins.
1985	New Coke is launched; old Coke rebranded as Coca-Cola Classic is brought back 79 days later.
2004	Online sales in the U.S. top \$100 billion.
2010	Apple launches the iPad; sells 300,000 of the tablets on the first day and 1 million iPads in 28 days—less than half of the 74 days it took to sell 1 million iPhones. Consumers watch more than 30 billion videos online per month.
2014	Facebook spends \$2 billion to buy Oculus Rift, a manufacturer of virtual reality headsets, as it signals the next frontier for social networks.
2016	Microsoft buys LinkedIn for \$26.1 billion.

Sources: Patricia Sellers, "To Avoid Trampling, Get Ahead of the Mass," *Fortune*, 1994, 201–2, except as noted. Keith Regan, "Report: Online Sales Top \$100 Billion," June 1, 2004, <http://www.ecommercetimes.com/story/34148.html>.

production orientation

A management philosophy that emphasizes the most efficient ways to produce and distribute products.

selling orientation

A managerial view of marketing as a sales function, or a way to move products out of warehouses to reduce inventory.

customer orientation

A business approach that prioritizes the satisfaction of customers' needs and wants.

The Production Era

We think about the history of marketing as moving through four distinct eras, summarized in Table 1.3 and briefly described here. Many people say that Henry Ford's Model T changed America forever. From the start in 1908, when the "Tin Lizzie," or "flivver" as the T was known, sold for \$825, Ford continued to make improvements in production

Ford's focus illustrates a **production orientation**, which works best in a seller's market when demand is greater than supply because it focuses on the most efficient ways to produce and distribute products.

The Sales Era

When product availability exceeds demand in a buyer's market, businesses may engage in the "hard sell," in which salespeople aggressively push their wares. This **selling orientation** means that management views marketing as a sales function, or a way to move products out of warehouses so that inventories don't pile up. The selling orientation gained in popularity after World War II and prevailed well into the 1950s. But consumers as a rule don't like to be pushed, and the hard sell gave marketing a bad image.

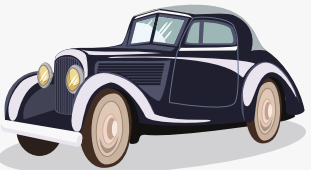
Companies that still follow a selling orientation tend to be more successful at making one-time sales rather than at building repeat business. We are most likely to find this focus among companies that sell *unsought goods*—products that people don't tend to buy without some prodding. For example, most of us aren't exactly "dying" to shop for cemetery plots, so some encouragement may be necessary to splurge on a final resting place. Even in these categories, however, we still may find that competitors try to stay on top of consumers' evolving needs. That's why we see the rise in popularity of *eco burials* that avoid embalming and encourage cremation and also online funerals that stream images of the loved one on the Internet.

The Relationship Era

At Plaza Fiesta outside Atlanta, Georgia, Hispanic customers are in for a treat: Instead of shopping at a mall, it's more like they're visiting a traditional Mexican village. With a bus station for ease of access, services like hairdressers or a doctor's office, and live music on Sundays, customers come for the experience, not just the shopping.¹⁰ Plaza Fiesta found that it pays to have a **customer orientation**.

As the world's most successful firms began to adopt a customer orientation, marketers had a way to outdo the competition, and firms began to develop more of an appreciation

Table 1.3 | The Evolution of Marketing

Icon	Era	Description	Example
	Production Era	Consumers have to take whatever is available marketing plays a relatively insignificant role.	Henry Ford's Model T sold for less than \$575 and owned 60% of the market.
	Sales Era	When product availability exceeds demand in a buyer's market. Management views marketing as a sales function, or a way to move products out of warehouses so that inventories don't pile up. Businesses engage in the "hard sell," in which salespeople aggressively push their wares.	The selling orientation gained in popularity after World War II when post-war demand had been satisfied and companies needed to sell more.
	Relationship Era	Firms have a customer orientation that satisfies customers' needs and wants.	Organizations research customer needs and develop products to meet the needs of various groups.
	Triple-Bottom-Line Era	Business emphasizes the need to maximize three components: 1. <i>The financial bottom line</i> 2. <i>The social bottom line</i> 3. <i>The environmental bottom line</i>	Companies try to create financial profits for stakeholders, contribute to the communities in which the company operates, and engage in sustainable business practices that minimize damage to the environment or that even improve it.

for the ways they could contribute to profits. Companies increasingly concentrated on improving the quality of their products. By the early 1990s, many in the marketing community followed a **total quality management (TQM)** approach, which is a management philosophy that involves all employees from the assembly line onward in continuous product quality improvement. We'll learn more about TQM in Chapter 9.

The Triple-Bottom-Line Orientation

More recently, organizations began to wake up to the idea that making monetary profit is important, but there's more to think about than just the financial bottom line. Instead, they began to focus on a **triple-bottom-line orientation**.¹¹ This new way of looking at business emphasizes the need to maximize not just one, but three components:

1. *The financial bottom line:* Financial profits to stakeholders
2. *The social bottom line:* Contributing to the communities in which the company operates
3. *The environmental bottom line:* Creating sustainable business practices that minimize damage to the environment or that even improve it

One result of this new way of long-term thinking is the **societal marketing concept**. It states that marketers must satisfy customers' needs in ways that also benefit society while

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total quality management (TQM)

A management philosophy that focuses on satisfying customers through empowering employees to be an active part of continuous quality improvement.

triple-bottom-line orientation

A business orientation that looks at financial profits, the community in which the organization operates, and creating sustainable business practices.

societal marketing concept

A management philosophy that marketers must satisfy customers' needs in ways that also benefit society and deliver profit to the firm.



Habitat for Humanity does well by doing good.

sustainability

A product design focus that seeks to create products that meet present consumer needs without compromising the ability of future generations to meet their needs.

green marketing

A marketing strategy that supports environmental stewardship, thus creating a differential benefit in the minds of consumers.

accountability

A process of determining just how much value an organization's marketing activities create and their impact on the bottom line.

return on investment (ROI)

The direct financial impact of a firm's expenditure of a resource, such as time or money.

they still deliver a profit to the firm. A similar important trend now is for companies to think of ways to design and manufacture products with a focus on **sustainability**, which we define as "meeting present needs without compromising the ability of future generations to meet their needs."¹² One way to think about this philosophy is "doing well by doing good." Many big and small firms alike practice sustainability through their efforts that include satisfying society's environmental and social needs for a cleaner, safer environment.

Adidas is one of the world's most admired companies when it comes to sustainability. In 2015, Adidas was ranked No. 3 of the *Global 100 Most Sustainable Corporations*. Adidas's sustainability initiatives come from its "open source" program comprised of searching for ideas from various stakeholders. One Adidas open source partner, Parley

for the Oceans, has a primary goal of getting plastic out of the ocean. Beginning in 2016, Adidas integrated materials made from ocean plastic waste into its products.¹³

Sustainability applies to many aspects of doing business, including social and economic practices (e.g., humane working conditions and diplomacy to prevent wars that deplete food supplies, atmospheric quality, and of course, lives). One other crucial pillar of sustainability is the environmental impact of the product. **Green marketing** means developing marketing strategies that support environmental stewardship by creating an environmentally founded differential benefit in the minds of consumers. Green marketing is one aspect of a firm's overall commitment to sustainability.

In addition to building long-term relationships and focusing on social responsibility, triple-bottom-line firms place a much greater focus on **accountability**—measuring just how much value an organization's marketing activities create. This means that marketers at these organizations ask hard questions about the true value of their efforts and their impact on the bottom line. These questions all boil down to the simple acronym of **ROI (return on investment)** or, specifically for marketing, **ROMI (return on marketing investment)**. Marketers now realize that if they want to assess just how much value they create for the firm, they need to know exactly what they are spending and what the concrete results of their actions are. You will learn more about ROMI in Chapter 3.

However, it's not always so easy to assess the value of marketing activities. Many times, managers state their marketing objectives using vague phrases like "increase awareness of our product" or "encourage people to eat healthier snacks." These goals are important, but their lack of specificity makes it pretty much impossible for senior management to determine marketing's true impact. Because management may view these efforts as costs rather than investments, marketing activities often are among the first to be cut out of a firm's budget. To win continued support for what they do (and sometimes to keep their jobs), marketers in triple-bottom-line firms do their best to prove to management that they generate measurable value by aligning marketing activities with the firm's overall business objectives.¹⁴

MillerCoors believes that a critical part of implementing accountability is that finance people respect marketing people for their knowledge and vice versa. The company has made this possible by developing a closer bond between the two groups. The CFO and CMO have adjacent offices and finance people have been dispersed among their marketing counterparts.¹⁵

What's Next in the Evolution of Marketing?

Although no one can really predict the future, most agree that in the years ahead we will see an acceleration of the most important factors that marketers think about today. These predictions include: Good content, big data, mobile marketing, marketing metrics, customer interaction, and the demand for companies to do good even as they do well.¹⁶ Let's briefly dive in and see what these terms mean.

Mobile marketing, interacting with consumers via mobile phones, tablets, and wearable screens such as smart watches, will be one of the prime factors in marketing's future. Not only will these small screens allow for more personalized relationships with customers but the growth of mobile screens in developing countries will exponentially increase the number of potential customers.

Customers' demand for good content will continue to dominate online marketing. **User-generated content** (also known as consumer-generated content), in which consumers engage in marketing activities such as creating advertisements, will grow and overtake the importance of **branded content**. Branded content has been an important communication strategy for a number of years. It is produced by a brand and may even indicate the brand is the sponsor but still presents itself as something other than an attempt to sell a product. *The Lego Movie* was a great example of branded content. Despite the claims that the movie was not created to sell Legos, the company did have a major say-so in decisions about details of the movie.

Consumers' use of online reviews, blogs, and social media will require more than ever that brands create a positive image with every customer and in any place that the company touches him or her whether online or offline. All of this means that branding will increasingly become a two-way conversation allowing consumers to have a greater voice. Because this increases the ability of marketers to track consumer behavior, they will be able to provide a more personalized brand communication experience.

Firms that do well by doing good will become more important than ever. Customers will continue the current trend of rewarding brands that do good and punishing those that do not. **Corporate citizenship**, also called corporate social responsibility, refers to a firm's responsibility to the community in which it operates and to society in general. In the future, good corporate citizenship will become a major marketing function.

The ability to effectively interpret the increasing volume of consumer data will actually improve consumer lives. Although the primary purpose of consumer big data is to increase the ability of marketers to create better products to improve customer service, the use of that same data can provide better health care and even improved traffic. Ever wonder why there are two or three Starbucks' locations only a block away from each other? Starbucks' uses big data that includes street traffic analysis and demographic information to find new store locations that will be successful.¹⁷ We'll do a deeper dive into big data in Chapter 5.

mobile marketing

Interacting with consumers via mobile devices (i.e., phones, tablets, and wearable screens such as smart watches).

user-generated content (also referred to as consumer-generated content)

Marketing content and activities created by consumers and users of a brand such as advertisements, online reviews, blogs, social media, input to new product development or serving as wholesalers or retailers. online reviews, blogs, and social media.

branded content

Marketing communication developed by a brand to provide educational or entertainment value rather than to sell the brand in order to develop a relationship with consumers; may indicate the brand is the sponsor.

corporate citizenship

Also referred to as corporate social responsibility, refers to a firm's responsibility to the community in which they operate and to society in general.

screen addicts

Consumers who spend so much time on smartphones, tablets, and computers that it interferes with more normal activities and productivity.

growth hacker

Experts who work on apps and sites to better hook consumers and keep them coming back and staying longer.

Ripped from the Headlines

Ethical/Sustainable Decisions in the Real World

How much time do you spend using your smartphone and your tablet each day? Are you one of the millions of college students who pulls out your smartphone to read your email, check your Facebook page, or play a game before class begins? What about during class (never!)? If so, you may be one of the millions of college students who are addicted to their small screens. Nearly three-quarters of Americans (71%) sleep with their smartphones, and 3 percent actually hold them all night long while they're in Dreamland. And, get this: More than 1/3 of respondents to a recent survey said their phones are the first thing on their minds when they wake up (only 10 percent said their significant other was).¹⁸

Of course, it isn't just college students who are addicted to their phones and tablets. Children have traded in their Barbie dolls, Hot Wheels, and Ninja Turtles for small screens as well. The problem is that young children, teens, and adults can rapidly become **screen addicts**.

Some experts suggest when children become addicted, this can damage their physical and mental health, just as addiction to alcohol or drugs. A British Heart Foundation study found that only 1 in 10 toddlers in the iPad generation is active enough to be healthy.¹⁹

And the tech companies continue to work to increase the amount of time consumers, young and old, spend on smartphones and tablets. The industry term for experts who work on apps and sites to better hook consumers, keep them coming back and staying longer is **growth hackers**.²⁰

There are some company leaders and designers who would like to do things differently, but there are greater incentives to continue growth hacking. Is this unethical? Should industry leaders, as good corporate citizens, work to inhibit Internet addiction? Should they develop apps to send an alert to users when they stay too long or provide some other means to stop addiction?

ETHICS CHECK:

Should companies try to increase the amount of time consumers spend with their small screens?

☐ YES ☐ NO

1.3

The Value of Marketing and the Marketing of Value**OBJECTIVE**

Understand value from the perspectives of customers, producers, and society.

(pp. 16–23)

We said that marketing is all about delivering value to everyone who is affected by a transaction. That includes the customer, the seller, and society at large.

How do customers decide how much value they will get from a purchase? One way to look at value is to think of it simply as a ratio of benefits to costs—that is, customers “invest” their precious time and money to do business with a firm, and they expect a certain bundle of benefits in return.

Let’s look at value from the different perspectives of the parties that are involved in an exchange: the customers, the sellers, and society.

Value from the Customer’s Perspective

Think about something you would like to buy, say, a new pair of shoes. You have narrowed the choice down to several options. Your purchase decision no doubt will be affected by the ratio of costs versus benefits for each type of shoe. When you buy a pair of shoes, you consider the price (and other costs) along with all the other benefits (utilities) that each competing pair of shoes provides you.

Marketers communicate these benefits to the customer in the form of a **value proposition**, which is a marketplace offering that fairly and accurately sums up the value that the customer will realize if he or she purchases the product. The value proposition includes the whole bundle of benefits the firm promises to deliver, not just the benefits of the product itself. For example, although most people probably won’t get to their destination sooner if they drive a BMW versus a Mercedes-Benz or Audi, many die-hard loyalists swear by their favorite brand.

These archival brands are largely marketed in terms of their images—meaning the images their respective marketing communication firms have carefully crafted for them with the help of slickly produced commercials, YouTube videos, and millions of dollars. When you buy a BMW, you do more than choose a car to get you around town, you may also make a statement about the type of person you are or wish you were. In addition to providing a luxury ride or superior maintenance services, that statement also is part of the value the product delivers to you. The challenge to the marketer is to create a killer value proposition. A big part of this challenge is to convince customers that this value proposition is superior to others they might choose from competitors.

Value from the Seller’s Perspective

We’ve seen that marketing transactions produce value for buyers, but how do sellers experience value, and how do they decide whether a transaction is valuable? One answer is obvious: They determine whether the exchange is profitable to them. Has it made money for the company’s management, its workers, and its shareholders?

That’s an important factor, but not the only one. Just as we can’t measure the value of an automobile from the consumer’s perspective only in terms of basic transportation, value from the seller’s perspective can take many forms. For example, in addition to making a buck or two, many firms measure value along other dimensions, such as prestige among rivals or pride in doing what they do well. The online shoe retailer Zappos’s top-core value is to “Deliver WOW through service.” Some organizations by definition don’t even care about making money, or they may not even be allowed to make money. Nonprofits like

value proposition

A marketplace offering that fairly and accurately sums up the value that will be realized if the good or service is purchased.

Greenpeace, the Smithsonian Institution, or National Public Radio regard value in terms of their ability to motivate, educate, or delight the public.

In recent years, many firms have transformed the way they do business. They now regard consumers as *partners* in the transaction rather than as passive “victims.” That explains why it’s becoming more common for companies to host events (sometimes called **brandfests**) to thank customers for their loyalty. For example, Jeep builds strong bonds with its Jeep 4 × 4 owners when it holds several off-road adventure weekends every year. These Jeep Jamborees are where other Jeep owners get to challenge the limits of their 4 × 4s on off-road trails and commune with fellow brand loyalists.²¹

Jeep’s cultivation of its 4 × 4 enthusiasts reflects an important lesson the company understands very well: *It is more expensive to attract new customers than it is to retain current ones.* This notion has transformed the way many companies do business, and we’ll repeat it several times in this book. However, there is an important exception to the rule: In recent years, companies have been working harder to calculate the true value of their relationships with customers by asking, “How much is this customer *really* worth to us?” Firms recognize that it can be costly in terms of both money and human effort to do whatever it takes to keep some customers loyal to the company. Often these actions pay off, but there are cases in which keeping a customer is a losing proposition.

Companies that calculate the **lifetime value of a customer** look at how much profit they expect to make from a particular buyer, including each and every purchase he or she will make from them now and in the future. To calculate lifetime value, companies estimate the amount the person will spend and then subtract what it will cost to maintain this relationship. The Metrics Moment box illustrates one approach to how marketers measure customer value.

Provide Value through Competitive Advantage

Firms of all types seek to gain a **competitive advantage**—an edge over its competitors that allows it to have higher sales, higher profits, more customers—in short to enjoy greater success year after year. In general, a competitive advantage comes from either a *cost advantage* or a *differential advantage*. A firm has a cost advantage when the firm can produce a good or service at a lower cost than competitors and thus charge customers a lower price. A differential advantage means that the firm produces a product that differs significantly from competitors’ products and customers see the product as superior.

How does a firm go about creating a competitive advantage? The first step is to identify what it does really well. A **distinctive competency** is a firm’s capability that is superior to that of its competition. For example, Coca-Cola’s success in global markets—Coke commands 50 percent of the world’s soft-drink business—is related to its distinctive competencies in distribution and marketing communications. Coke’s distribution system got a jump on the competition during World War II, when Coke partnered with the military to make sure every soldier had access to its soft drink. The military actually paid for the transportation of Coca-Cola and helped the company to build bottling plants to keep the troops happy.²² Coke’s skillful marketing communications program, a second distinctive competency, has contributed to its global success. Coke doesn’t market its product; it sells “happiness.”

The second step to develop a competitive advantage is to turn a distinctive competency into a **differential benefit**—value that competitors don’t offer. Differential benefits set products apart from competitors’ products by providing something unique that customers want, that is the competitive advantage. Differential benefits provide reasons for customers to pay a premium for a firm’s products and exhibit a strong brand preference. For many years, loyal Apple computer users benefited from superior graphics capability compared to their PC-using counterparts. Later, when PC manufacturers caught up with this competitive advantage, Apple relied on its inventive product designers to create another differential benefit—futuristic-looking computers in a multitude of colors.

brandfests

Events that companies host to thank customers for their loyalty.

lifetime value of a customer

The potential profit a single customer’s purchase of a firm’s products generates over the customer’s lifetime.

competitive advantage

A firm’s edge over its competitors that allows it to have higher sales, higher profits, and more customers and enjoy greater success year after year.

distinctive competency

A superior capability of a firm in comparison to its direct competitors.

differential benefit

Properties of products that set them apart from competitors’ products by providing unique customer benefits.

Metrics Moment

This section highlights the concepts of value and the value proposition that firms and their offerings bring to customers. But how do marketers actually measure value? Increasingly, they develop a **marketing scorecard** that reports (often in the form of numerical values) how the company or brand is actually doing in achieving various goals. We can think of a scorecard as a marketing department’s report card. Scorecards tend to be short and to the point, and they often include charts and graphs to summarize information in an easy-to-read format. They might report “grades” on factors such as actual cost per sale, a comparison of web hits (the number of people who visit an e-commerce site) versus web conversions (the number who actually buy something at the site), a measure of customers’ satisfaction with a company’s repair facilities, or perhaps even a percentage of consumers who respond to a mail piece

that asks them to make a donation to a charity that the firm sponsors. You can see an example of a simple scorecard in Table 1.4. Throughout this book, we’ll give you the opportunity to “get your hands dirty” as you calculate various kinds of scores, or **metrics**.

Apply the Metrics

1. Using Table 1.4 as a template, develop a scorecard for student satisfaction with your marketing class. You will need to develop your own relevant items for satisfaction measurement.
2. Then have the students in your class complete the scorecard now and again in the middle of the semester.
3. Summarize, interpret, and present the results.

marketing scorecards

Feedback vehicles that report (often in quantified terms) how the company or brand is actually doing in achieving various goals.

metrics

Measurements or “scorecards” that marketers use to identify the effectiveness of different strategies or tactics.

Table 1.4 | An Example of a Customer Service Scorecard

Item	Quarterly Scores		
	1st Qtr.	2nd Qtr.	3rd Qtr.
Satisfaction with			
C1 Employee responsiveness	60%	65%	68%
C2 Product selection	60%	62%	63%
C3 Service quality	60%	62%	55%
C4 Cleanliness of facility	75%	80%	85%
C5 Knowledge of employees	62%	62%	58%
C6 Appearance of employees	60%	62%	63%
C7 Convenience of location	60%	65%	68%

Source: Adapted from C. F. Lunbry and C. Rasinowich, “The Missing Link: Cause and Effect Linkages Make Marketing Scorecards More Valuable,” *Marketing Research*, Winter 2003, 14–19, p. 18. Copyright © 2003 American Marketing Association.

This competitive advantage even tempted many loyal PC users to take a bite of the Apple (see Table 1.5).

Add Value through the Value Chain

Many different players—both within and outside a firm—need to work together to create and deliver value to customers. The **value chain** is a useful way to appreciate all the players that work together to create value. This term refers to a series of activities involved in designing, producing, marketing, delivering, and supporting any product. In addition to marketing activities, the value chain includes business functions such as human resource management and technology development.²³

The value chain concept reminds us that every product starts with raw materials such as iron ore or crude oil that are of relatively limited value to the end customer. Each link in the chain has the potential to either add or remove value from the product the customer eventually buys. The successful firm is the one that can perform one or more of these activities better than other firms; this is its distinctive competency and thus provides an opportunity to gain a competitive advantage. The main activities of value chain members include the following:

- *Inbound logistics:* Bringing in materials or component parts necessary to make the product
- *Operations:* Converting the materials into another form or the final product

value chain

A series of activities involved in designing, producing, marketing, delivering, and supporting any product. Each link in the chain has the potential to either add or remove value from the product the customer eventually buys.

Table 1.5

How Firms Achieve a Competitive Advantage with a Distinctive Competency²⁴

Company	Distinctive Competency	Differential Benefit	Competitive Advantage
Coca-Cola	Distribution and marketing communications	Convenience and brand awareness for customers all over the world	Other soft drinks are unable to take loyal customers away from Coke. Coca-Cola has more than 50% of the world soft-drink market.
Apple	Product quality and design	Easy access to cutting-edge technology	Apple's sales of its Mac computer increased 28.5% as the overall market for PCs decreased.
Southwest Airlines	Price point	Appeals to budget-conscious consumers	Southwest is the number one domestic carrier in the U.S.
Amazon.com	Fulfillment and distribution	Availability, convenience, and ease of access of product	Amazon holds about a 50% market share for books sold via the Internet.
Starbucks	Product quality	Customer satisfaction	Starbucks has just under 33% of the market share in its industry.

- *Outbound logistics:* Shipping out the final product
- *Marketing:* Promoting and selling the final product
- *Service:* Meeting the customer's needs by providing any additional support required

To better understand the value chain, consider a new iPad you buy at your local Apple store. Do you think about all the people and steps involved in designing, producing, and delivering that product to the store? And there are other people who create brand advertising, conduct consumer research to figure out what people like or dislike about their small tablet, or even make the box it comes in or the packaging that keeps the unit from being damaged in shipment? Without these people, there simply would be no iPad, only a box of raw materials and parts.

As  Figure 1.2 shows, all these activities and companies belong to Apple's value chain. This means that Apple must make a lot of decisions. What electronic components will go into its music players? What accessories will it include in the package? What trucking companies, wholesalers, and retailers will deliver the iPods to stores? What service will it

Figure 1.2  **Snapshot** | Apple's Value Chain

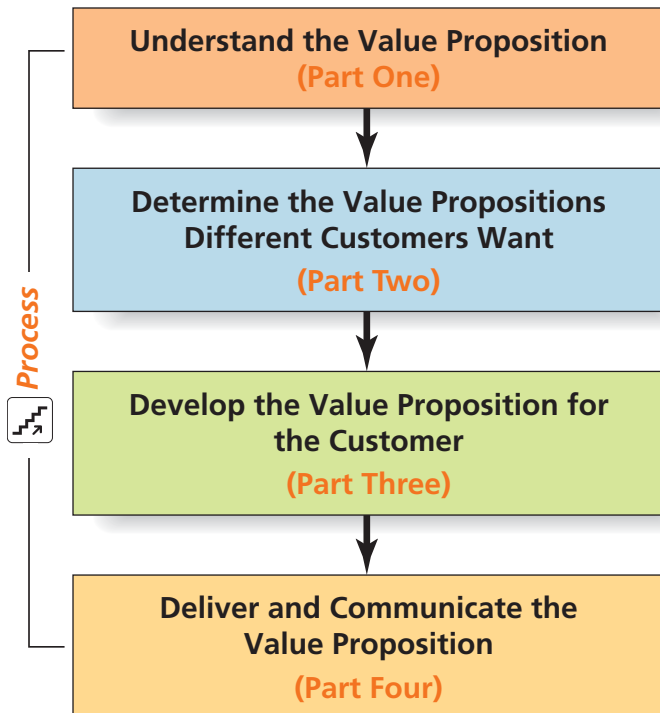
Apple's value chain includes inbound logistics, operations, outbound logistics, marketing and sales, and service.

Inbound Logistics	Operations	Outbound Logistics	Marketing and Sales	Service
• Planar lithium battery (Sony) • Hard drive (Toshiba) • MP3 decoder and controller chip (PortalPlayer) • Flash memory chip (Sharp Electronics Corp.) • Stereo digital-to-analog converter (Wolfson Microelectronics Ltd.) • Firewire interface controller (Texas Instruments)	• Consumer research • New product development team • Engineering and production	• Trucking companies • Wholesalers • Retailers	• Advertising • Sales force	• Computer technicians

Source: Based on information from Erik Sherman, "Inside the Apple iPod Design Triumph," May 27, 2006, <http://www.designchain.com/coverstory.asp?issue=summer02>.

Figure 1.3  **Process** | Create and Deliver Value

This book is organized around the sequence of steps necessary to ensure that the appropriate value exchange occurs and that both parties to the transaction are satisfied. Each step corresponds to one of the book's five parts.



haul videos

Videos consumers post on YouTube that detail the latest stuff they bought.

provide to customers after the sale? And what marketing strategies will it use? In some cases, members of a value chain will work together to coordinate their activities to be more efficient and thus create a competitive advantage.

We've organized this book around the series of steps in the marketing process. Each of these steps is essential to ensuring that the appropriate value exchange occurs and that both parties to the transaction are satisfied—making it more likely they'll continue to do business in the future.  Figure 1.3 shows these steps. Basically, we're going to learn about what marketers do as a product makes its way through the firm's value chain from obtaining the raw materials and component parts to produce the product to delivery into the customer's hands.

We'll start in Part 1 with a focus on how companies plan for success with global and ethical marketing strategies. In Part 2, we'll see how research and Big Data help marketers understand and meet the different needs of different customers. Then Part 3 takes a look at how firms decide to "position" the product in the marketplace, including choices about what it should look like, how its value should be communicated to customers, and how much to charge for it. As we reach the end of our marketing journey in Part 4, we'll talk about how the product gets delivered and promoted to consumers.

Consumer-Generated Value: From Audience to Community

As we discussed earlier, one of the most exciting changes in the world of marketing is that everyday people actually *generate* value instead of just buying it; consumers are turning into advertising directors, retailers, and new-product-development consultants. They create their own ads (some flattering, some not) for products and post them on sites like YouTube. They buy and sell merchandise ranging from Beatles memorabilia to washing machines (to body parts, but that's another story) on eBay. They share ideas for new styles with fashion designers, design new advertising, and customize their own unique versions of products on websites. Some even proudly announce the latest stuff they've bought in "**haul videos**" they shoot and post on YouTube (if you don't believe us, just search for "haul videos" and see how many people take the time to do this).

These profound changes mean that marketers must adjust their thinking about customers: They need to stop thinking of buyers as a passive audience and start thinking of them as a community that is motivated to participate in both the production and the consumption of what companies sell. They also are part of the brand communication process as they create their own videos, provide product reviews, and participate in blogs. Some examples of this **consumer-generated content** include:

- Ghirardelli Chocolate broadcast consumer-generated comments in New York's Times Square about when and where they most enjoyed eating its chocolate squares.²⁵
- At iReport, budding citizen journalists can upload photos and videos to CNN in response to breaking news. The most timely and compelling of these stories have the potential to be vetted (cleared) and aired on the CNN TV network.²⁶
- Rite-Solutions, a software company that builds advanced command-and-control systems for the U.S. Navy, sets up an internal "prediction market" in which any employee can propose that the company acquire a new technology, enter a new business, or make an efficiency improvement. These proposals become stocks, complete with ticker

symbols, discussion lists, and e-mail alerts. Employees buy or sell the stocks, and prices change to reflect the sentiments of the company's engineers, computer scientists, and project managers—as well as its marketers, accountants, and even the receptionist. One “stock” resulted in the development of a new product that now accounts for 30% of the company's sales.²⁷

- For almost a decade, Doritos cashed in on its “Crash the Super Bowl” contest, where fans submitted their best 30-second commercials. The winning commercial (as voted on by fans) was aired during the Super Bowl game, and the winner received not only bragging rights but also took home a cool \$1 million.²⁸

Consumer-Generated Value: Social Networking

In the 1990s, the Internet (**Web 1.0**) was typified by static content provided by a site's creator. Businesses and institutions permitted little consumer involvement on websites.²⁹ These commercially and technically based organizations created sites that were crude, simple, and designed to accomplish one specific function. Later, **Web 2.0** offered marketers two-way communication through social networking sites such as Facebook. People wrote blogs and E-commerce expanded.

Web 3.0, where we are now, offers consumers real-time instant communications through live chats and instant messaging. When a marketing blunder is announced on the news such as Chipotle Grill's tainted food crisis, consumers blanket Twitter and Facebook with comments and complaints. Marketers are able to track customers' browser behavior so that if a customer searched for a sleeping bag, sleeping bags would be advertised/promoted on the main page and often on a totally different web page later. Maybe you've noticed that the things you search for tend to “follow” you around even as you visit other sites.

Marketers are now beginning to enjoy the benefits provided by **Web 4.0**, which offers customer engagement, cloud operations, and web participation as necessities. This means that marketers can now do much more than sell products to customers and the customers post their experiences and opinions of the products. To be successful in our fast-changing Internet-connected lives, companies must engage customers with the brand through social media, blogs and other online channels. Although we may imagine the **Cloud** as a physical place, in reality it's a network of servers, all having different functions. Because the Cloud provides an almost infinite amount of storage space, your school may have moved your e-mail to the Cloud. Some software companies have moved their programs to the Cloud. For example, small business owners now have the option of buying or paying a monthly subscription to QuickBooks.³⁰

With the web, consumers create value through *social media*, which are Internet-based platforms that allow users to create their own content and share it with others who access their sites. Social media include, among others, social networks such as Facebook and Twitter and product review sites such as TripAdvisor. On **social networking platforms**, a user posts a profile on a website and he or she provides and receives links to other members of the network to share input about common interests. The odds are that you and most of your classmates checked your Facebook page before (or during?) class today.

Social media platforms like this are very hot today; more and more advertisers realize that these sites are a great way to reach an audience that tunes in regularly and enthusiastically to catch up with friends, check out photos of what they did at that outrageous party Saturday night (ouch!), proclaim opinions about political or social issues, or share discoveries of new musical artists.³¹ They share several important characteristics:

- They improve as the number of users increases. For example, Amazon's ability to recommend books to you based on what other people with similar interests have bought gets better as it tracks more and more people who enter search queries.
- Their currency is eyeballs. Google makes its money by charging advertisers according to the number of people who see their ads after they type in a search term.

Web 1.0

The beginning phase of the Internet that offered static content provided by the owner of the site.

Web 2.0

The second generation of the World Wide Web that incorporated social networking and user interactivity via two-way communication.

Web 3.0

The current generation of the web that offers consumers real-time instant communications through live chats and instant messaging and marketers the ability to track customers' online behavior.

Web 4.0

The web gives consumers access to thousands of apps and makes the ability to use their smartphones and tablets to access brands anywhere and anytime a necessity.

Cloud

A network of servers that provide an almost infinite amount of storage space.

social networking platforms

Online platforms that allow a user to represent himself or herself via a profile on a website and provide and receive links to other members of the network to share input about common interests.

folksonomy

A classification system that relies on users rather than preestablished systems to sort contents.

wisdom of crowds

Under the right circumstances, groups are smarter than the smartest people in them, meaning that large numbers of consumers can predict successful products.

crowdsourcing

A practice where firms outsource marketing activities (such as selecting an ad) to a community of users.

- They are version free and in perpetual beta. Unlike static websites or books, content is always a work in progress. Enthusiastic users who serve as volunteer editors constantly update Wikipedia, the online encyclopedia and “correct” others’ errors.
- They categorize entries according to **folksonomy** rather than “taxonomy.” In other words, sites rely on users rather than preestablished systems to sort contents. Listeners at Pandora create their own “radio stations” that play songs by artists they choose as well as other similar artists.³²

This last point highlights a key change in the way some new media companies approach their businesses: Think of it as marketing strategy by committee. The **wisdom of crowds** perspective (from a book by that name) argues that under the right circumstances, groups are smarter than the smartest people in them. If this is true, it implies that large numbers of (nonexpert) consumers can predict successful products.³³ Marketers rely on **crowdsourcing** when they outsource marketing activities to a large group of people, often through a social networking community. For example, Lego offers up its Lego CUUSOO crowdsourcing platform to solicit product and concept ideas from fans. The company periodically reviews the ideas that garner 10,000 supporters to see which ones might merit the chance to become a real Lego product, such as the *Ghostbusters* 30th Anniversary set, and “winners” earn 1 percent of the profits on net sales.³⁴ We’ll talk more about crowdsourcing in Chapter 13.

Value from Society’s Perspective

Every company’s activities influence the world around it in ways both good and bad. Therefore, we must also consider how marketing transactions add or subtract value from society. In many ways, we as consumers are at the mercy of marketers, because we trust them to sell us products that are safe and perform as promised. We also trust them to price and distribute these products fairly. Conflicts often arise in business when the pressure to succeed in the marketplace provokes dishonest business practices; the huge failure of major financial services organizations like AIG and Goldman Sachs is a painful case in point.

Companies usually find that stressing ethics and social responsibility also is good business. The Internet and social media mean that consumers communicate about unsafe or faulty products, bad service, or scams. Some find this out the hard way:

The U.S. Environmental Protection Agency accused Volkswagen AG of using software to make 482,000 Volkswagen diesel-powered cars appear cleaner than they were. After first denying the accusation, Volkswagen later admitted to the charge. VW stock lost a third of its value in one day and the company faced the possibility of billions of dollars in fines.³⁵ In contrast, Procter & Gamble voluntarily withdrew its Rely tampons from the market following reports of women who had suffered toxic shock syndrome (TSS). Although scientists did not claim a causal link between Rely and TSS, the company agreed with the Food and Drug Administration that they would undertake extensive advertising notifying women of the symptoms of TSS and asking them to return their boxes of Rely for a refund. The company took a \$75 million loss and sacrificed an unusually successful new product that had already captured about one-quarter of the billion-dollar sanitary product market.³⁶

The Dark Side of Marketing and Consumer Behavior

For some—hopefully not many and hopefully not *you* after you read this book—marketing is a four-letter word. Whether intentionally or not, some marketers *do* violate their bond of trust with consumers, and unfortunately the “dark side” of marketing often is the subject of harsh criticism.³⁷ In some cases, these violations are illegal, such as when a retailer adopts a “bait-and-switch” selling strategy, luring consumers into the store with promises of inexpensive products with the sole intent of getting them to switch to higher-priced goods.

In other cases, marketing practices have detrimental effects on society even though they are not actually illegal. Some alcohol and tobacco companies advertise in low-income neighborhoods where abuse of these products is a big problem. Others sponsor

commercials that depict groups of people in an unfavorable light or sell products that encourage antisocial behavior. An online game based on the Columbine High School massacre drew criticism from some who say it trivializes the actions of the two teen killers. We'll talk more about marketing ethics in Chapter 2.

Despite the best efforts of researchers, government regulators, and concerned industry people, sometimes consumers' worst enemies are themselves. We tend to think of ourselves as rational decision makers, calmly doing our best to obtain products and services that will maximize our health and well-being and that of our families and society. In reality, however, our desires, choices, and actions often result in negative consequences to ourselves and the society in which we live. Some of these actions are relatively harmless, but others have more onerous consequences. Some harmful consumer behaviors, such as excessive drinking or cigarette smoking, stem from social pressures, and the cultural value that people place on money encourages activities such as shoplifting or insurance fraud. Exposure to unattainable ideals of beauty and success can create dissatisfaction with the self. Let's briefly review some dimensions of the "dark side" of consumer behavior:

Addictive consumption: **Consumer addiction** is a physiological or psychological dependency on goods or services. These problems, of course, include alcoholism, drug addiction, and cigarettes, and many companies profit from addictive products or by selling solutions. More recently, as we've already seen many have become concerned about small screen addiction. Although most people equate addiction with drugs, consumers can use virtually anything to relieve (at least temporarily) some problem or satisfy some need to the point that reliance on it becomes extreme. "Shopaholics" turn to shopping much the way addicted people turn to drugs or alcohol.³⁸ Numerous treatment centers in China, South Korea, and Taiwan (and now a few in the U.S. also) deal with cases of Internet or small screen addiction—some hardcore gamers have become so hooked that they literally forget to eat or drink and die of dehydration. There is even a Chap Stick Addicts support group with approximately 250 active members!³⁹

Illegal activities: The cost of crimes that consumers commit against businesses has been estimated at more than \$40 billion per year. A survey the McCann-Erickson advertising agency conducted revealed the following tidbits:⁴⁰

- Ninety-one percent of people say they lie regularly. One in three fibs about their weight, one in four fudges their income, and 21 percent lie about their age. Nine percent even lie about their natural hair color.
- Four out of 10 Americans have tried to pad an insurance bill to cover the deductible.
- Nineteen percent say they've snuck into a theater to avoid paying admission.
- More than three out of five people say they've taken credit for making something from scratch when they have done no such thing. According to Pillsbury's CEO, this "behavior is so prevalent that we've named a category after it—speed scratch."

Shrinkage: In 2014, shrinkage cost retailers an average of 1.38 percent of their total sales or \$44 million. **Shrinkage** is the industry term for inventory and cash losses from shoplifting, employee theft, and damage to merchandise. As we'll see in Chapter 12, this is a massive problem for businesses, one that they in turn pass on to consumers in the form of higher prices. Analysts attribute about 40 percent of the losses to employees rather than shoppers.

Anticonsumption: Some types of destructive consumer behavior are **anticonsumption**, when people deliberately deface or otherwise damage products. This practice ranges from relatively mild acts like spray-painting graffiti on buildings and subways, to serious incidences of product tampering or even the release of computer viruses that can bring large corporations to their knees.

consumer addiction

A physiological or psychological dependency on goods or services including alcoholism, drug addiction, cigarettes, shopping, and use of the Internet.

shrinkage

Losses experienced by retailers as a result of shoplifting, employee theft, and damage to merchandise.

anticonsumption

The deliberate defacement of products.

1.4 Marketing as a Process

OBJECTIVE

Explain the basics of market planning.

(p. 24)

Our definition of marketing also refers to *processes*. This means that marketing is not a one-shot operation. When it's done right, marketing is a decision process in which marketing managers determine the strategies that will help the firm meet its objectives and then execute those strategies using the tools they have at their disposal. In this section, we'll look at how marketers make business decisions and plan actions and the tools they use to execute their plans. We'll build on this brief overview in Chapter 3.

A big part of the marketing process is *market planning*, where we think carefully and strategically about the "big picture" and where our firm and its products fit within it. The first phase of market planning is to analyze the marketing environment. This means understanding the firm's current strengths and weaknesses by assessing factors that might help or hinder the development and marketing of products. The analysis must also take into account the opportunities and threats the firm will encounter in the marketplace, such as the actions of competitors, cultural and technological changes, and the economy.

Firms (or individuals) that engage in market planning ask questions like these:

- What product benefits will our customers look for in three to five years?
- What capabilities does our firm have that set it apart from the competition?
- What additional customer groups might provide important market segments for us in the future?
- How will changes in technology affect our production process, our communication strategy, and our distribution strategy?
- What changes in social and cultural values are occurring now that will impact our market in the next few years?
- How will customers' awareness of environmental issues affect their attitudes toward our manufacturing facilities?
- What legal and regulatory issues may affect our business in both domestic and global markets?

Answers to these and other questions provide the foundation for developing an organization's *marketing plan*. This is a document that describes the marketing environment, outlines the marketing objectives and strategy, and identifies who will be responsible for carrying out each part of the marketing strategy. Marketing plans will be discussed in full detail in Chapter 3—in fact, in that chapter you will learn about the basic layout and content of a marketing plan. A major marketing decision for most organizations is which products to market to which consumers without simultaneously turning off other consumers. Some firms choose to reach as many customers as possible, so they offer their goods or services to a **mass market** that consists of all possible customers in a market regardless of the differences in their specific needs and wants. Market planning then becomes a matter of developing a basic product and a single strategy to reach everyone.

Although this approach can be cost effective, the firm risks losing potential customers to competitors whose marketing plans instead try to meet the needs of specific groups within the market. A **market segment** is a distinct group of customers within a larger market who are similar to one another in some way and whose needs differ from other customers in the larger market. For example, automakers such as Ford, General Motors, and BMW offer different automobiles for different market segments. Depending on its goals and resources, a firm may choose to focus on one or on many segments. A **target market** is the segment(s) on which an organization focuses its marketing plan and toward which it directs its marketing efforts. Marketers develop *positioning* strategies to create a desired perception of the product in consumers' minds in comparison to competitors' brands. We'll learn more about these ideas in Chapter 7.

mass market

All possible customers in a market, regardless of the differences in their specific needs and wants.

market segment

A distinct group of customers within a larger market who are similar to one another in some way and whose needs differ from other customers in the larger market.

target market

The market segments on which an organization focuses its marketing plan and toward which it directs its marketing efforts.

MyMarketingLab™

Go to **mymktlab.com** to complete the problems marked with this icon ★ as well as additional Marketing Metrics questions only available in MyMarketingLab.

Objective Summary → Key Terms → ApplyCHAPTER 1
Study Map**1.1 Objective Summary** (pp. 4–11)**Explain what marketing is, the marketing mix, what can be marketed, and the value of 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. Therefore, marketing is all about delivering value to stakeholders, that is, to everyone who is affected by a transaction. Organizations that seek to ensure their long-term profitability by identifying and satisfying customers' needs and wants adopt the marketing concept.

The marketing mix includes product, price, place, and promotion. The product is what satisfies customer needs. The price is the assigned value or amount to be exchanged for the product. The place or channel of distribution gets the product to the customer. Promotion is the organization's efforts to persuade customers to buy the product.

Any good, service, or idea that can be marketed is a product, even though what is being sold may not take a physical form. Consumer goods are the tangible products that consumers purchase for personal or family use. Services are intangible products that we pay for and use but never own. Business-to-business goods and services are sold to businesses and other organizations for further processing or for use in their business operations. Not-for-profit organizations, ideas, places, and people can also be marketed.

Marketing provides value for customers when they practice the marketing concept and focus on identifying and satisfying customer needs. Marketing provides form, place, time, and possession utility. In addition, marketing provides value through satisfying the needs of diverse stakeholders, society, and the earth.

Key Terms

consumer, p. 4
marketing, p. 4
marketing mix, p. 5

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Four Ps, p. 5
product, p. 6
promotion, p. 6
place, p. 6
channel of distribution, p. 6
price, p. 6
exchange, p. 7
consumer goods, p. 7
services, p. 7
business-to-business marketing, p. 8
industrial goods, p. 8
e-commerce, p. 8
not-for-profit organizations (also known as
nongovernmental organizations [NGOs]), p. 8
marketing concept, p. 9
need, p. 9
want, p. 9
benefit, p. 9
demand, p. 9
market, p. 9
marketplace, p. 9
rentrepreneurs, p. 10
collaborative consumption, p. 10
utility, p. 10
stakeholders, p. 11

1.2 Objective Summary (pp. 11–15)**Explain the evolution of the marketing concept.**

Early in the twentieth century, firms followed a production orientation in which they focused on the most efficient ways to produce and distribute products. Beginning in the 1930s, some firms adopted a selling orientation that encouraged

salespeople to aggressively sell products to customers. In the 1950s, organizations adopted a customer orientation that focused on customer satisfaction. This led to the development of the marketing concept. Today, many firms are moving toward a triple-bottom-line orientation that includes a commitment to quality and value, a concern for both economic and social profit while protecting the environment. The societal marketing concept maintains that marketers must satisfy customers' needs in ways that also benefit society while still delivering a profit to the firm. Similarly, companies think of ways to design and manufacture products with a focus on *sustainability*, or "doing well by doing good." Experts believe marketing will continue to change with greater use of good content, big data, mobile marketing, metrics and accountability, customer interaction and corporate citizenship.

Key Terms

production orientation, p. 12
selling orientation, p. 12
customer orientation, p. 12
total quality management (TQM), p. 13
triple-bottom-line orientation, p. 13
societal marketing concept, p. 13
sustainability, p. 14
green marketing, p. 14
accountability, p. 14
return on investment (ROI), p. 14
mobile marketing, p. 15
user-generated content (also known as consumer-generated content), p. 15
branded content, p. 15
corporate citizenship, p. 15
screen addicts, p. 15
growth hackers, p. 15

1.3 Objective Summary (pp. 16–23)

Understand value from the perspectives of customers, producers, and society.

Value is the benefits a customer receives from buying a good or service. Marketing communicates these benefits as the value proposition to the customer. For customers, the value proposition includes the whole bundle of benefits the product promises to deliver, not just the benefits of the product itself. Sellers determine value by assessing whether their transactions are profitable, whether they are providing value to stakeholders by creating a competitive advantage, and whether they are providing value through the value chain. Customers generate value when they turn into advertising directors, retailers, and new-product-development

consultants, often through social networking using social media. Society receives value from marketing activities when producers stress ethics and social responsibility. Criticisms of both marketing and consumer activities may be valid in a few instances, but most are unfounded.

Key Terms

value proposition, p. 16
brandfests, p. 17
lifetime value of a customer, p. 17
competitive advantage, p. 17
distinctive competency, p. 17
differential benefit, p. 17
marketing scorecards, p. 18
metrics, p. 18
value chain, p. 18
haul videos, p. 20
Web 1.0, p. 21
Web 2.0, p. 21
Web 3.0, p. 21
Web 4.0, p. 21
Cloud, p. 21
social networking platforms, p. 21
folksonomy, p. 22
wisdom of crowds, p. 22
crowdsourcing, p. 22
consumer addiction, p. 23
shrinkage, p. 23
anticonsumption, p. 23

1.4 Objective Summary (p. 24)

Explain the basics of market planning.

The strategic process of market planning begins with an assessment of factors within the organization and in the external environment that could help or hinder the development and marketing of products. On the basis of this analysis, marketers set objectives and develop strategies. Many firms use a target marketing strategy in which they divide the overall market into segments and then target the most attractive one. Then they design the marketing mix to gain a competitive position in the target market.

Key Terms

mass market, p. 24
market segment, p. 24
target market, p. 24

Chapter Questions and Activities

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Go to mymktlab.com to watch this chapter's Rising Star video(s) for career advice and to respond to questions.

Concepts: Test Your Knowledge

- 1-1. Briefly explain what marketing is.
- 1-2. List and describe the elements of the marketing mix.
- 1-3. Define the terms *consumer goods*, *services*, and *industrial goods*.
- 1-4. Explain needs, wants, and demands. What is the role of marketing in each of these?
- 1-5. What is utility? How does marketing create different forms of utility?
- 1-6. Trace the evolution of the marketing concept.
- 1-7. Explain how marketers practice the societal marketing concept and sustainability.
- 1-8. Describe the Internet and how Web 3.0 and 4.0 provide greater opportunities for marketers to interact with their customers.
- 1-9. To what does the *lifetime value of the customer* refer, and how is it calculated?
- 1-10. What does it mean for a firm to have a competitive advantage? What gives a firm a competitive advantage?
- 1-11. What is involved in marketing planning?

Activities: Apply What You've Learned

- ★ 1-12. *In Class, 10–25 Minutes for Teams* Assume that you are a marketing consultant employed by a large retail chain that offers consumers products in a number of brick-and-mortar stores and online. The retail organization wishes to increase its loyal customer base by engaging customers through interaction opportunities on social networks. Develop a list of at least 10 specific social network activities that will work together to increase customer engagement.
- 1-13. *In Class, 10–25 Minutes for Teams* Successful firms have a competitive advantage because they are able to identify distinctive competencies and use these to create differential benefits for their customers. Consider your business school or your university. What distinctive competencies does it have? What differential benefits does it provide for students? What is its competitive advantage? What are your ideas as to how your university could improve its competitive position? Write an outline of your ideas.
- 1-14. *In Class, 10–25 Minutes for Teams* As college students, you and your friends sometimes discuss the various courses you are taking. One of your friends says to you, "Marketing's not important. It's just dumb advertising." Another friend says, "Marketing doesn't really affect people's lives in any way." As a role-playing exercise, present your arguments against these statements to your class.
- 1-15. *For Further Research (Individual)* Recent reports indicate that consumers including children and teens are

becoming small screen addicts. Develop a series of questions (about 10). Use these to Interview at least five of your fellow students about their use of smartphones and tablets. Write up a report on your finding and conclusions.

- 1-16. *For Further Research (Groups)* Today's marketers recognize that the Internet and Big Data have changed marketing and will continue to change it in the years to come. Your team assignment is to first find examples of how the Internet and Big Data have improved marketing for some for-profit and not-for-profit organizations. Then develop your ideas on how the Internet and Big Data could make contributions to society as a whole in the future. Develop a short presentation for your class.

Concepts: Apply Marketing Metrics

The chapter discusses the growing importance of sustainability, and it notes that companies and consumers increasingly consider other costs in addition to financial kinds when they decide what to sell or buy. One of these cost categories is damage to the environment. How can marketers make it easier for shoppers to compute these costs? The answer is more apparent in some product categories than in others. For example, American consumers often are able to compare the power consumption and annual costs of appliances by looking at their EnergyStar™ rating. In other situations, we can assess the *carbon footprint* implications of a product or service; this tells us how much CO₂ our purchase will emit into the atmosphere (e.g., if a person flies from New York to London). The average American is responsible for 9.44 tons of CO₂ per year!⁴¹ A carbon footprint comes from the sum of two parts, the direct, or primary, footprint and the indirect, or secondary, footprint:

- The *primary footprint* is a measure of our direct emissions of CO₂ from the burning of fossil fuels, including domestic energy consumption and transportation (e.g., cars and planes).
- The *secondary footprint* is a measure of the indirect CO₂ emissions from the whole life cycle of products we use, from their manufacture to their eventual breakdown.⁴²

Although many of us are more aware today that our consumption choices carry unseen costs, there is still a lot of confusion about the best way to communicate the environmental costs of our actions, and in many cases, consumers aren't motivated to take these issues into account unless the costs impact them directly and in the short term.

- ★ 1-17. As a consumer, what other metrics would you suggest that might reflect benefits of sustainability initiatives

that would motivate you to purchase from one provider or the other?

- ★ 1-18. Would you buy from a demonstrably more expensive provider just because they exhibited a higher level of commitment to sustainability?

Choices: What Do You Think?

- 1-19. *Critical Thinking* Journalists, government officials, and consumers have been highly critical of companies for gathering and storing large amounts of data on consumers (i.e., Big Data). Others argue that such practices are essential for firms to provide high-quality, affordable products that satisfy consumers' varied needs. What do you think? Should the government regulate such practices? How can such practices hurt consumers? How can these practices help consumers?
- ★ 1-20. *Ethics* Despite best efforts to ensure product safety, products that pose a danger to consumers sometimes reach the marketplace. At what point should marketers release information about a product's safety to the public? How should marketers be held accountable if their product harms a consumer?
- 1-21. *Critical Thinking* The marketing concept focuses on the ability of marketing to satisfy customer needs. As a typical college student, how does marketing satisfy your needs? What areas of your life are affected by marketing? What areas of your life (if any) are not affected by marketing?
- 1-22. *Critical Thinking* Many consumers are concerned about the environment. They demand green marketing activities and more green products. Still, most do not buy green products because they are a few cents more expensive. How do you explain this? What are marketers doing wrong? Should government intervene? What are your suggestions for successful green marketing?
- ★ 1-23. *Critical Thinking* Consumer-generated commercials seem to be part of a broader trend toward consumer-generated content of all sorts. Examples include MySpace, Flickr (where users post photos and comment on others' pictures), blogging, and video-sharing sites like YouTube. Do you think this is a passing fad or an important trend? How (if at all) should marketers be dealing with these activities?
- 1-24. *Ethics* The American Psychological Association formally recognizes Internet addiction as a psychological disorder. Should it? Why or why not?
- 1-25. *Ethics* Crowdsourcing has a lot of up side—for the company initiating the crowdsourcing anyway. The

company gets to generate buzz among its fans as well as generate new product ideas and inventive advertising campaigns for little to no investment. Is there an upside to crowdsourcing for the customer, or are companies exploiting their users?

Miniproject: Learn by Doing

The purpose of this miniproject is to develop an understanding of the practice of marketing and the importance of societal marketing and sustainability to different organizations.

- 1-26. Working as a team with two or three other students, select an organization in your community. It may be a manufacturer, a service provider, a retailer, a not-for-profit organization—almost any organization will do. Then schedule a visit with someone within the organization who is involved in the marketing activities. Arrange for a short visit during which the person can give your group a tour of the facilities and explain the organization's marketing activities.
- 1-27. Divide the following list of topics among your team and ask each person to be responsible for developing a set of questions to ask during the interview to learn about the company's program:
- What customer segments the company targets.
 - How it determines customer needs and wants.
 - What products it offers, including features, benefits, and goals for customer satisfaction.
 - What its pricing strategies are.
 - How it uses interactive content to engage customers.
 - How it distributes products and whether it has encountered any problems.
 - How it determines whether the needs and wants of customers are being met.
 - Explain what marketers mean by the "societal marketing concept" and "sustainability" and ask if these are areas of concern to the organization. If so, how do they address them in their organization's activities? If not, ask if they have any plans to move in this direction in the future and, if so, how.
- 1-28. Develop a team report of your findings. In each section of the report, share what you learned that is new or surprising to you compared to what you expected.
- 1-29. Develop a team presentation for your class that summarizes your findings. Conclude your presentation with comments on what your team believes the company was doing that was particularly good and what was not quite so good.

Marketing in Action Case Real Choices at Coca-Cola

What do you do when your customer starts to shrink, both literally and figuratively? The sale of soft drinks in the U.S. is not what it used to be. The \$98 billion soft-drink industry is being challenged by changes in consumers' attitudes toward both sugar-sweetened and diet drinks. Historically, soft drinks have

been a significant portion of the American diet and sales have grown year after year.

In the U.S. the rates of obesity, diabetes, and other weight-related health issues are on the rise. In 2014, the Centers for Disease Control and Prevention found that 35 percent of U.S.

adults were obese. And the problem is not limited to adults; with distressing regularity children are being diagnosed as obese. Although obesity and its related issues are complicated and have many different causes, soft drink manufacturers, like Coca-Cola, have been forced to bear a large share of the blame. This combined with the current consumer trend toward a healthier lifestyle has dealt a blow to the beverage industry. Since the 1990s, the sales of soft drinks have fallen by more than 25 percent.

J. Alexander M. Douglas Jr., president of Coca-Cola North America, stated that the public's change toward better health and wellness is transforming the long-term competitive environment. As many consumers have changed their attitudes toward sweetened soft drinks, they have also begun to question the safety of artificial sweeteners used in diet soft drinks. According to Barry M. Popkin, a professor of nutrition at the University of North Carolina, this has led to consumers changing from regular to diet soft drinks and finally to other beverages. The decision for many consumers has ultimately been to choose water.

Ironically, health and wellness were a key component of the beginning of the Coca-Cola story. In 1886, Dr. John S. Pemberton, a pharmacist, created a flavored syrup that was mixed with carbonated water and sold to customers. The motivation was to create a non-alcoholic alternative to the French Wine Coca, a concoction Dr. Pemberton used to cure his addiction to morphine. Dr. Pemberton promoted his new product as having a variety of health benefits, claiming that it was a cure for headaches, it relieved exhaustion, and it calmed nerves.

This mixture, which would eventually evolve into Coca-Cola, was primarily sold in pharmacies. However, instead of promoting it as a medicine, Dr. Pemberton decided to sell it as a fountain drink.

The association of obesity and soft drinks has become so much of a problem that in some cities, politicians are proposing "soda taxes" to reduce the amount of sugar consumed. For now the soft-drink manufacturers are winning the political battles but are in jeopardy of losing overall. One of the consequences of these policy fights is that consumers are being reminded that soft drinks may not be the healthiest choice.

Coca-Cola has documented in a recent annual report that "Obesity concerns may reduce demand for some of our products." It has also stated that obesity and its corresponding health concerns are important risk considerations for Coca-Cola's business growth and sustained profitability.

How will this ongoing concern by public health officials affect how Americans feel about soft drinks in the long run? Will soft drinks ever attain the negative status of tobacco products, which many consumers have abandoned? Will Coca-Cola be able to reclaim its former position as market leader or must Coke change its focus to something else?

You Make the Call

- 1-30.** What is the decision facing Coca-Cola?
- 1-31.** What factors are important in understanding this decision situation?
- 1-32.** What are the alternatives?
- 1-33.** What decision(s) do you recommend?
- 1-34.** What are some ways to implement your recommendation?

Based on: Margot Sanger-Katz, "The Decline of 'Big Soda'—The Drop in Soda Consumption Represents the Single Largest Change in the American Diet in the Last Decade," *New York Times* (October 2, 2015), http://www.nytimes.com/2015/10/04/upshot/soda-industry-struggles-as-consumer-tastes-change.html?_r=0 (accessed April 2, 2016); Claire Suddath, "Coke Confronts Its Big Fat Problem: Inside the Relaunch of America's No. 1 Soft Drink," *Bloomberg BusinessWeek* (July 31, 2014), <http://www.bloomberg.com/news/articles/2014-07-31/coca-cola-sales-decline-health-concerns-spur-relaunch> (accessed April 2, 2016); "Is This the Real Thing? Coca-Cola's Secret Formula 'Discovered,'" *Time*, Inc. (February 15, 2011), <http://newsfeed.time.com/2011/02/15/is-this-the-real-thing-coca-colas-secret-formula-discovered/> (accessed April 3, 2016).

MyMarketingLab™

Go to **mymktlab.com** for Auto-graded writing questions as well as the following Assisted-graded writing questions:

- 1-35. Creative Homework/Short Project.** An old friend of yours has been making and selling vitamin-fortified smoothies to acquaintances and friends of friends for some time. He is now thinking about opening a shop in a small college town, but he is worried about whether just having a great smoothie is enough to be successful. Knowing that you are a marketing student, he's asked you for some advice. What can you tell him about product, price, promotion, and place (distribution) strategies that will help him get his business off the ground?
- 1-36. Creative Homework/Short Project.** As a marketing professional, you have been asked to write a short piece for a local business newsletter about the state of marketing today. You think the best way to address this topic is to review how the marketing concept has evolved and to discuss the triple-bottom-line orientation. Write the short article you will submit to the editor of the newsletter.

Global, Ethical, and Sustainable Marketing

Objective Outline

- 2.1** Understand the big picture of international marketing and the decisions firms must make when they consider globalization. pp. 32–35

TAKE A BOW: MARKETING ON THE GLOBAL STAGE p. 32

- 2.2** Explain how international organizations such as the World Trade Organization (WTO), economic communities, and individual country regulations facilitate and limit a firm's opportunities for globalization pp. 35–37

UNDERSTAND INTERNATIONAL, REGIONAL, AND COUNTRY GLOBAL TRADE CONTROLS p. 35

- 2.3** Understand how factors in a firm's external business environment influence marketing strategies and outcomes in both domestic and global markets. pp. 37–48

ANALYZE THE EXTERNAL MARKETING ENVIRONMENT p. 37

- 2.4** Explain some of the strategies and tactics that a firm can use to enter global markets. pp. 48–53

HOW "GLOBAL" SHOULD A GLOBAL MARKETING STRATEGY BE? p. 48

- 2.5** Understand the importance of ethical marketing practices. pp. 53–57

ETHICS IS JOB ONE IN MARKETING PLANNING p. 53

- 2.6** Explain the role of sustainability in marketing planning. pp. 57–59

SUSTAINABILITY: MARKETERS DO WELL BY DOING GOOD p. 57

Check out the Chapter 2 **Study Map** on page 60.



Courtesy of Keith Sutter/Johnson & Johnson

Keith Sutter

▼ A Decision Maker at Johnson & Johnson

Keith Sutter is the senior product director for sustainable brand marketing at Johnson & Johnson. In that role, Keith leads Johnson & Johnson's 250 operating companies in developing sustainable products, business, and marketing strategies. He translates the value of Johnson & Johnson's extensive product stewardship and environmental successes to the company's trade customers and consumers, including championing the Earthwards® process.

Keith began his career at Johnson & Johnson in 2001 as a marketing associate. He subsequently held positions of increasing responsibility as a brand marketer on brands such as Band-Aid®, Neutrogena®, Lactaid®, and Ludens®.

Keith has a BS in economics from the Wharton School at the University of Pennsylvania and an MBA from the S.C. Johnson Graduate School of Management at Cornell University. He lives in Center City, Philadelphia, with his wife, Amy, and two sons, Leo and Charlie.

Keith's Info

What I do when I'm not working?
Triathlons and other outdoor sports.

First job out of school?

Marketing associate at Johnson & Johnson on the Decorated Band-Aid® Brand bandages, which was a great job working with licensees and cartoon characters like SpongeBob SquarePants and Elmo.

Business book I'm reading now?
David & Goliath by Malcom Gladwell.

What drives me?

New business opportunities and innovative new products and business models.

My management style?

Pacesetter. I like to set a good example for my team while allowing them the freedom to develop innovative solutions to our business problems that drive results.

Don't do this when interviewing with me.

Neglect to provide detailed examples of results you drove when asked for specific experiences.



Here's my **problem...**

Real People, Real Choices

Johnson & Johnson is one of the world's leading manufacturers of healthcare products. It sells many familiar consumer brands such as Band-Aid®, Neutrogena®, Listerine®, Splenda®, and Tylenol®, as well as medical devices and prescription drugs. Within this global company, the Earthwards® approach motivates employees to improve the sustainability of products. It defines how Johnson & Johnson thinks about and addresses its environmental and social impacts and challenges its people to design innovative and more sustainable solutions across a product's life cycle—from formulation and manufacturing to product use and safe disposal.

When Johnson & Johnson launched the Earthwards® process in 2009, Keith and his team used it to encourage J&J's product teams to make significant improvements to 60 products. Today, Johnson & Johnson has integrated and expanded the original process across the company. It uses the Earthwards® approach to drive continuous innovation by requiring every new product to:

- *Meet product stewardship requirements.* Every new product must achieve regulatory compliance and deliver on Johnson & Johnson's high standards.
- *Understand life cycle impact areas.* The life cycle impacts of products are reviewed at the category level, and opportunities to drive improvements are considered at the design, procurement, manufacturing, and marketing stages of a product's development.

Inviting every product team to:

- *Implement and validate improvements.* Product teams collaborate with sustainability experts to implement recommended improvements, and environmental marketing claims are reviewed and approved in accordance with applicable guidelines.

Encouraging the most sustainable product teams to:

- *Achieve Earthwards® recognition, an honor celebrating our most innovative and improved products.* If a product achieves at least three significant improvements across seven impact areas (materials used, packaging, energy reduction, waste reduction, water reduction, positive social impact or benefit, and product innovation), a board of internal and external experts determines if the product warrants Earthwards® recognition and provides suggestions for additional improvements. Teams who receive Earthwards® recognition are publicly congratulated on Earthwards.com and rewarded for their innovations by Johnson & Johnson leadership.

As he considered the best strategy to promote Earthwards®, Keith knew that one of his biggest challenges was to convince J&J's 127,000 employees around the globe to buy in to the idea. He needed a way to drive awareness and interest in the Earthwards® approach to sustainable product development across

Johnson & Johnson. Generating awareness, understanding, and adoption of the process across J&J's business units was a key performance metric against which his team would be measured.

Keith had only limited resources to accomplish this objective.

Keith considered his Options 1·2·3

1

Option

Continue a successful tactic from the early roll-out of Earthwards®:

Host regional green marketing conferences to bring together key stakeholders once per year. These meetings would showcase key tools and resources available that would then be distributed as requested by e-mail to other employees. This is high touch and engaging but hard to scale effectively across such a large company.

2

Option

Develop a customer intranet site, including an online scorecard to take Earthwards® submissions from an Excel spreadsheet to an online database accessible by all employees.

The site would also house all the tools and materials Keith and his team had developed to date to explain Earthwards® and drive its adoption across J&J's varied businesses. This solution is low-touch and not engaging, but it is efficient because everyone in the company can access it easily. This database would free up resources that Keith and his team could use to further develop the Earthwards® program both internally and in the marketplace.

3

Option

Develop a high-touch strategy of identifying 20 to 30 influential leaders within Johnson & Johnson.

Then set up multiple in-person meetings and training sessions with the goal of making the case for adoption of Earthwards® into each leader's business process and then encouraging each of these leaders to drive adoption of the program within J&J. This option would really engage people, but its impact would be hard to measure.

Now, put yourself in Keith's shoes. Which option would you choose, and why?

You Choose

Which **Option** would you choose, and **why**?

☐ Option 1 ☐ Option 2 ☐ Option 3

See what option Keith chose in MyMarketingLab™

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Visit **mymktlab.com** for simulations, tutorials, and end-of-chapter problems.

Chapter 2**2.1****Take a Bow: Marketing on the Global Stage****OBJECTIVE**

Understand the big picture of international marketing and the decisions firms must make when they consider globalization.

(pp. 32–35)

Here's an important question: Do you primarily see yourself only as a resident of Smalltown, USA, or as a member of a global community? The reality is that you and all your classmates are citizens of the world and participants in a global marketplace. It is likely that you eat bananas from Ecuador, drink beer from Mexico, and sip wine from Australia, South Africa, or Chile. When you come home, you may take off your shoes that were made in Thailand, put your feet up on the cocktail table imported from Indonesia, and watch the World Cup football (soccer) match being played in Brazil or Canada on your Smart TV while check-

ing your Facebook page on your smartphone, both made in China. Hopefully, you also have some knowledge and concern for important world events such as the recent Ebola epidemic in Africa, terrorist attacks in Europe, and recent developments in North Korea and Syria. And you may even be looking for an exciting career with a firm that does business around the globe.

Firms doing business in this global economy face uncertainty in the future of the global marketplace. For a number of years, consumers and world leaders have argued that the development of free trade and a single global marketplace will benefit us all because it allows people who live in developing countries to enjoy the same economic benefits as citizens of more developed countries.

There are other reasons that many leaders want a single marketplace. One important reason comes from fears that the **Greenhouse Effect** may threaten the future of the planet. What is the Greenhouse Effect? In simple terms, our factories and automobiles continue to pump more and more carbon dioxide (the most important of the greenhouse gasses) into our atmosphere while at the same time we cut down the rain forests and reduce the amount of oxygen the trees add to the atmosphere. This increase in greenhouse gasses causes the earth to get warmer, just like a greenhouse provides a warm place for tender plants. The result, many believe, is **global warming**, a warming of the earth which will have disastrous effects on the planet. These fears have caused many to demand international agreements that would force industries and governments to develop and adhere to the same environmental standards to protect the future of the planet.

Of course, there is another side to the issue of a single marketplace. The **Arab Spring**, a series of anti-government protests and uprisings in a number of Arab countries that were largely aided by new social media tools available to people in the region, gave hope to many that dictatorships in countries in the Middle East would become democracies and bring a better life to peoples of the countries. Instead, new violent radical groups such as ISIS took over large portions of these countries. This was accompanied by a growing number of terrorist attacks in other parts of the world, causing citizens and country leaders to propose greater restrictions on immigration and on trade with countries that aid or harbor terrorists. At the same time, the decrease in the price of oil has increased concerns about a downturn in the global economy where each individual country will want to protect its own industries.

You may be asking, "What do these current events have to do with a marketing course?" Whether we like it or not, we are a global community. Everything that happens in any part of the world has a potential to influence what marketers need to do to be successful at home and around the globe. We'll be talking about these influences in this chapter and throughout the book.

The global marketing game is exciting, the stakes are high, and it's easy to lose your shirt. Competition comes from both local and foreign firms, and differences in national laws, customs, and consumer preferences can make your head spin. In this section, we will first discuss the status of world trade today. Then, we'll look at the decisions firms must make as they consider their global opportunities.

Greenhouse Effect

The turning of our atmosphere into a kind of greenhouse as a result of the addition of carbon dioxide and other greenhouse gasses.

global warming

A warming of the planet earth that will have disastrous effects on the planet.

Arab Spring

A series of anti-government protests and uprisings in a number of Arab countries facilitated by new social media tools available to people in the region.

World Trade

World trade refers to the flow of goods and services among different countries—the total value of all the exports and imports of the world’s nations. In 2009, the world suffered a global economic crisis that resulted in dramatic decreases in worldwide exports. Today, we see increasing growth in world trade with world exports of merchandise increasing from \$12 trillion in 2009 to nearly \$19 trillion in 2014. Just how much is \$19 trillion? Think about it this way: A recent lottery prize grew to a whopping \$1 billion. If a lottery awarded a \$1 billion prize every day, it would take more than 50 years to equal \$19 trillion. Of course, not all countries participate equally in the trade flows among nations. Understanding the “big picture” of who does business with whom is important to marketers when they devise global trade strategies.  Figure 2.1 shows the value of merchandise North American countries traded with major partners around the world in 2014.

It’s often a good thing to have customers in remote markets but to serve their needs well requires flexibility and the ability to adapt to local social and economic conditions. For example, you may have to adapt to the needs of foreign trading partners when those firms can’t pay cash for the products they want to purchase. Believe it or not, the currencies of as many as 100 countries—from the Albanian “lek” to the Uzbekistan “sum”—are not *convertible*; you can’t spend or exchange them outside the country’s borders. In other countries, because sufficient cash or credit simply is not available, trading firms work out elaborate deals in which they trade (or *barter*) their products with each other or even supply goods in return for tax breaks from the local government. This **countertrade** accounts for as much as 25 percent of all world trade.¹

Our ever-increasing access to products from around the world does have a dark side: The growth in world trade in recent years has been accompanied by a glut of unsafe products—toys with lead paint, toothpaste containing poisonous diethylene glycol, and more recently, crayons laced with cancer-causing asbestos—many of which have come from China.² In 2014, the European Commission’s early warning system for dangerous products (RAPEX) reported a notable increase in alerts of unsafe products; of the more than 2,000 alert issues the commission received, almost two-thirds of the unsafe products came from China.³ Although most Chinese manufacturers make quality products, some unscrupulous producers have damaged the reputation of Chinese manufacturers and prompted U.S. and European officials to increase their inspections of Chinese imports.

world trade

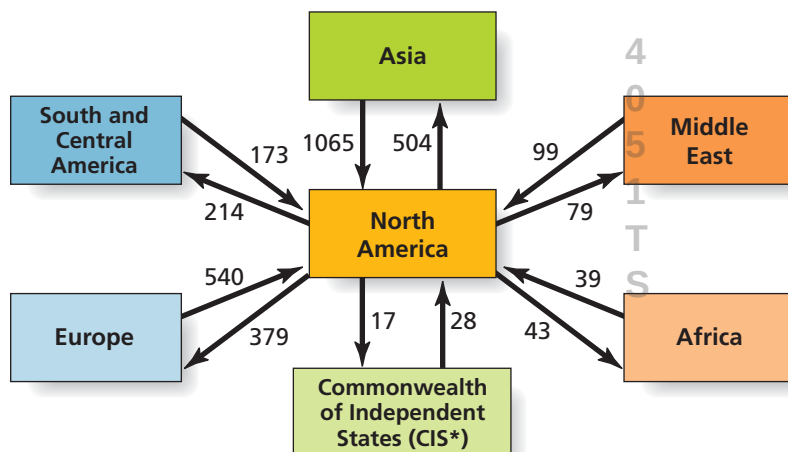
The flow of goods and services among different countries—the value of all the exports and imports of the world’s nations.

countertrade

A type of trade in which goods are paid for with other items instead of with cash.

Figure 2.1  **Snapshot** | North American Merchandise Trade Flows (in Billions \$)

Knowing who does business with whom is essential to develop an overseas marketing strategy. As this figure shows, North America trades most heavily with Asia, Europe, and Latin America.



* Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Republic of Moldova, Russian Federation, and Ukraine

Figure 2.2  **Process** | Steps in the Decision Process to Enter Global Markets

Entering global markets involves a sequence of decisions.



Should We Go Global?

 Figure 2.2 shows that when firms consider going global they must think about this in four steps:

- *Step 1.* “Go” or “no go”—is it in our best interest to focus exclusively on our home market or should we cast our net elsewhere as well?
- *Step 2.* If the decision is “go,” which global markets are most attractive? Which country or countries offer the greatest opportunity for us?
- *Step 3.* What market-entry strategy, or rather, what level of commitment is best? As we’ll see, it’s pretty low risk to simply export products to overseas markets. On the other hand, although the commitment and the risk is substantial if the firm decides to build and run manufacturing facilities in other countries, the potentially greater payoff may be worth the extra risk.
- *Step 4.* How do we develop successful marketing mix strategies in these foreign markets—should we standardize what we do across all the countries where we operate or develop a unique localized marketing strategy for each country?

We’ll look at the first of these decisions now—whether or not to go global.

The Globalization Decision

Although the prospect of millions—or even billions—of consumers salivating for your goods in other countries is tempting, not all firms can or should go global. When they make these decisions, marketers need to consider a number of factors that may enhance or detract from their success abroad. Let’s review two that are critical to the decision: domestic demand and the competitive advantage the firm enjoys at home.

Look at Domestic and Global Market Conditions and Opportunities

Many times, a firm decides it’s time to go global because the opportunity for growing the business and greater profit within its domestic market has already peaked and may even be declining while foreign markets offer opportunities for large growth. Of course, if there is still room to grow business and profits at home, it may not be a good idea to invest in the larger global market for now.

Starbucks has served coffee to just about every American who drinks coffee. The company opened its first store in 1971 in Seattle. After conquering its home city, the company spread across the U.S. The company’s global expansion began in 1996 when it opened its first store outside of North America in Tokyo. Starbucks has opened stores in additional countries every year since. Today, Starbucks operates more than 24,000 stores in 70 countries.⁴ That’s a lot of lattes.

Consider Your Competitive Advantage

In Chapter 1, we discussed how firms hope to create a competitive advantage over rivals. When firms enter a global marketplace, this challenge is even greater. There are more players involved, and typically local firms have a “home-court advantage.” It’s like soccer—increasing numbers of Americans play the game, but they are up against an ingrained tradition of soccer fanaticism in Europe and South America, where kids start dribbling a soccer ball when they start to walk.

If it wants to go global, a firm needs to examine the competitive advantage that makes it successful in its home country. Will this leg up “travel” well to other countries? If the answer is yes, then a firm is probably wise to consider globalization more seriously. Starbucks, long known for its product quality, superior customer service, fair treatment of employees, and respect for local cultures, is experiencing great growth overseas as well as strong sales in the U.S.⁵

Now that we've discussed this first step in the global decision process, we'll look at important factors that help marketers make decisions about what markets to enter, including global trade controls that governments have in place and the various elements of the external environment that influence marketing decisions both at home and abroad. Finally, we'll examine marketers' decisions on the level of commitment and if and how to adapt marketing strategies used in the domestic market for success in other countries.

2.2

Understand International, Regional, and Country Global Trade Controls

OBJECTIVE

Explain how international organizations such as the World Trade Organization (WTO), economic communities, and individual country regulations facilitate and limit a firm's opportunities for globalization.

(pp. 35–37)

Even the most formidable competitive advantage does not guarantee success in foreign markets. Many governments participate in activities that support the idea that the world should be one big open marketplace where companies from every country are free to compete for business. The actions of others frequently say the reverse. In many countries, the local government may “stack the deck” in favor of domestic competitors. Often, they erect roadblocks (or at least those pesky speed bumps) designed to favor local businesses over outsiders, making it even more difficult to expand into foreign markets. Indeed, here in the U.S. the issue of whether to regulate trade to give American companies an advantage—or to lessen the advantage that companies based in other countries have from their own governments—is one of the most divisive issues in political and business circles.

Initiatives in International Cooperation and Regulation

In recent years, a number of international initiatives have diminished barriers to unfettered world trade. Most notably, after World War II, the United Nations established the **General Agreement on Tariffs and Trade (GATT)**, which did a lot to establish free trade among nations. During a meeting in 1984 known as the Uruguay Round, GATT created the **World Trade Organization (WTO)**. With 161 members, the WTO member nations account for 98 percent of world trade. The WTO has made giant strides to create a single, open world market. It is the only international organization that deals with the global rules of trade between nations. Its main function is “to ensure that trade flows as smoothly, predictably and freely as possible.”⁶

The WTO also tackles other issues that stand in the way of an open and fair world market. If you spend any time in Asia, you immediately notice the huge numbers of luxury watches, leather bags, and current music CDs that sell for ridiculously low prices. Who can resist a Rolex watch for \$20? Of course, there is a catch: They're fake or pirated illegally. Protection of copyright and patent rights is a huge headache for many companies, and it's a priority the WTO tries to tackle. *Pirating* is a serious problem for U.S. companies because illegal sales significantly erode their profits. All too often, we see news headlines from New York, Rome, or Dubai about police confiscating millions of dollars' worth of goods—from counterfeit luxury handbags to fake Viagra.⁷

Two additional organizations have a strong influence on the advancement of global trade: the **World Bank** and the **International Monetary Fund (IMF)**. The World Bank, founded in 1944 and owned by its 181 member countries, is an international lending institution. The goal of the World Bank is to reduce poverty and improve the lives of people by

General Agreement on Tariffs and Trade (GATT)

International treaty to reduce import tax levels and trade restrictions.

World Trade Organization (WTO)

An organization that replaced GATT; the WTO sets trade rules for its member nations and mediates disputes between nations.

World Bank

An international lending institution that seeks to reduce poverty and improve the lives of people by improving economies and promoting sustainable development.

International Monetary Fund (IMF)

An international organization that seeks to ensure the stability of the international monetary exchange by controlling fluctuations in exchange rates.

foreign exchange rate (forex rate)

The price of a nation's currency in terms of another currency.

balance of payments

A statement of how much trade a country has going out compared to how much it has coming in. If a country is buying more than it is selling, it will have a negative balance of payments.

protectionism

A policy adopted by a government to give domestic companies an advantage.

import quotas

Limitations set by a government on the amount of a product allowed to enter a country.

embargo

A quota completely prohibiting specified goods from entering or leaving a country.

tariffs

Taxes on imported goods.

economic communities

Groups of countries that band together to promote trade among themselves and to make it easier for member nations to compete elsewhere.

improving economies and promoting sustainable development. In pursuit of this goal, the World Bank lends about \$20 billion a year to development projects. The poorest countries may have up to 50 years to repay the loans without interest.⁸

The primary purpose of the IMF, also founded in 1944, is to ensure the stability of the international monetary exchange by controlling fluctuations in **foreign exchange rates**, also referred to as **forex rates**. Exchange rates are simply the price of one currency in terms of another currency. Stabilizing exchange rates can help to prevent severe **balance of payments** problems and thereby make it possible for countries to trade with each other. A country's balance of payments is a statement of how much trade a country has going out compared to how much it has coming in. If a country is buying more than it is selling, it will have a negative balance of payments (which is not necessarily a bad thing).⁹ When we look in Figure 2.1 at the amount of merchandise various regions of the world import and export, we can get a good picture of the inequality of the balance of payments around the globe.

Protected Trade: Quotas, Embargoes, and Tariffs

Whereas the WTO works for free trade, some governments adopt policies of **protectionism** when they enforce rules on foreign firms to give home companies an advantage. Many governments set **import quotas** on foreign goods to reduce competition for their domestic industries. Quotas can make goods more expensive to a country's citizens because the absence of cheaper foreign goods reduces pressure on domestic firms to lower their prices.

While we normally think of import quotas that protect manufacturing and agricultural producers within a country, China also has strict import quotas on foreign films. A Hollywood-China co-production is exempt from the quota. Matt Damon created buzz in China when he began production as the star of a film in March 2016. The story of the co-production is about an army of elite warriors who must transform the Great Wall into a weapon "in order to combat wave after wave of otherworldly creatures hellbent on devouring humanity."¹⁰

An **embargo** is an extreme quota that prohibits commerce and trade with a specified country altogether. For over 50 years, hardcore cigar smokers in the U.S. have had to do without as the U.S. government prohibited the import of Cuban cigars as well as rum and other products because of political differences with its island neighbor. Now that the U.S. government has moved toward the normalization of relations between the two countries, Americans may again enjoy these uniquely Cuban products.

Governments also use **tariffs**, or taxes on imported goods, to give domestic competitors an advantage in the marketplace by making foreign competitors' goods more expensive than their own products. New Balance makes the only sneakers produced exclusively in the U.S. To protect this domestic industry, there is a 48 percent tariff on foreign shoes imports. No wonder those "Nike's Air Jordan III Retro Infrared 23" shoes are so expensive!¹¹

Economic Communities

Groups of countries may also band together to promote trade among themselves and make it easier for member nations to compete elsewhere. These **economic communities** coordinate trade policies and ease restrictions on the flow of products and capital across their borders. Economic communities are important to marketers because they set policies in areas such as product content, package labeling, and advertising regulations. The U.S., for example, is a member of the *North American Free Trade Agreement (NAFTA)*, which includes the U.S., Canada, and Mexico. The *European Union (EU)* represents 490 million consumers, more than 300 million of whom use the euro as their currency. In June 2016, voters in the U.K. approved the U.K.'s withdrawal from the European Union, causing alarm and concern around the globe. The long-term effects of this move will only be known after the passage of time. Table 2.1 lists the world's major economic communities.

Table 2.1 | Some Major Economic Communities around the World

Community	Member Countries
Andean Community (www.comunidadandina.org)	Bolivia, Colombia, Ecuador, Peru
Association of Southeast Asian Nations (ASEAN) (www.aseansec.org)	Brunei, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam
Central American Common Market (CACM)	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama
Common Market for Eastern and Southern Africa (COMESA) (www.comesa.int)	Burundi, Comoros, Democratic Republic of Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia, Zimbabwe
European Union (EU) (www.Europa.eu.int)	Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden (The United Kingdom was a member until it withdrew from the EU in 2016.)
MERCOSUR (www.mercosur.org)	Brazil, Paraguay, Uruguay, Argentina
NAFTA	Canada, Mexico, United States
North American Free Trade Agreement (NAFTA) (www.nafta-sec-alena.org)	
SAPTA	Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, Sri Lanka
South Asian Preferential Trade Arrangement (SAPTA) (www.saarc-sec.org)	

2.3 Analyze the External Marketing Environment

OBJECTIVE

Understand how factors in a firm's external business environment influence marketing strategies and outcomes in both domestic and global markets.

(pp. 37–49)

Whether or not you decide to venture out of your own country (at least for now), to succeed you can't simply bury your head in the sand and ignore what's going on in the rest of the world. You can be sure your competitors aren't! Marketing planning demands that marketers understand the firm's internal and external environments. We'll talk about the internal environment of a firm in Chapter 3. In this chapter we'll look at how an understanding of a firm's external environment is even more important if your firm has decided to go global.

Things can happen very quickly, and new developments can trip up even the most sophisticated marketers. Just ask Tata Motors, which is a major player in the Indian auto industry. In 2016, Tata prepared to launch a new hatchback with the name Zica. Oops, too close to the Zika virus that's spreading headaches around the world so the company has to rename the car quickly.¹²

And, if you have decided to go global, understanding local conditions in a potential new country or in regional markets helps you to figure out where to go.  Figure 2.3 provides a snapshot of these different external environments we'll dive into now.

The Economic Environment

After several rocky years of economic stumbling caused by the Great Recession of 2008–2009, the global economy is finally starting to make a comeback. It's a slow process—the global economy grew by only 2.6 percent in 2014 and 3.0 percent and 3.3 percent in 2015 and 2016, respectively. Countries with the highest incomes have experienced lower growth rates (2.4 percent in 2016) compared to much higher growth rates in lower income countries (5.3 percent) and 5.9 percent in countries with the lowest level of development, the **least developed countries (LDCs)**.

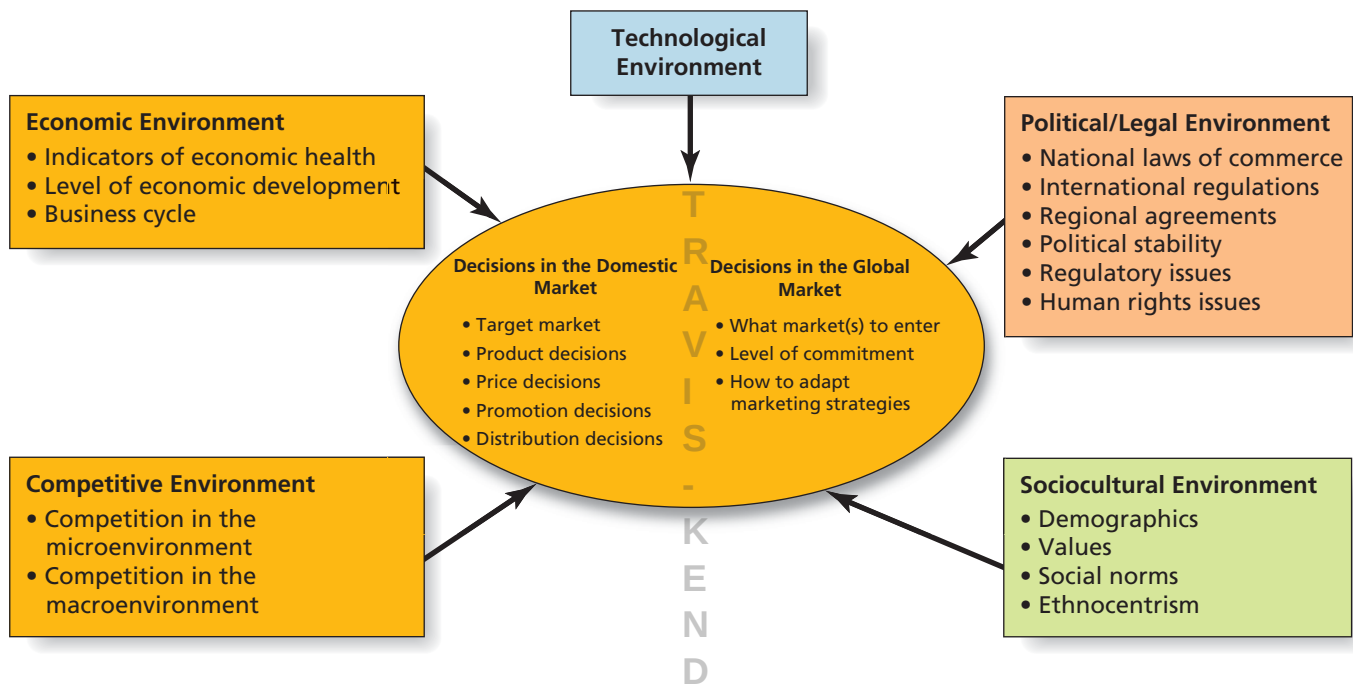
least developed country (LDC)

A country at the lowest stage of economic development.

Figure 2.3  **Snapshot** | Elements of the External Environment

It's essential to understand elements of the firm's external environment to succeed in both domestic and global markets.

Source: "World Trade Report," World Trade Organization, https://www.wto.org/english/res_e/publications_e/wtr15_e.htm



When we look at the future of the world economy, two areas of concern may impact future growth: the decline in oil prices because of a decrease in demand coupled with an increase in supply and the disruptive effects on trade due to geopolitical tensions in some regions of the world.¹³ Marketers need to understand the state of the economy from two different perspectives: (1) the overall economic health and level of development of a country and (2) the current stage of its business cycle. Let's take a look at each now.

Indicators of Economic Health

Just as a doctor takes your temperature during a medical checkup, companies need to know about the overall "health" of a country's *economic environment* before they conduct a more detailed exam. You can easily find information about most countries in the *World Factbook* of the Central Intelligence Agency (CIA) (no, you don't need high-level security clearance to access this information online).

The most commonly used measure of economic health is a country's **gross domestic product (GDP)**: the total dollar value of goods and services it produces within its borders in a year. Table 2.2 shows the GDP and other economic and demographic characteristics of a sampling of countries. In addition to total GDP, marketers may also compare countries on the basis of *per capita GDP*: the total GDP divided by the number of people in a country. The *per capita GDP* is the better indicator of economic health because it is adjusted for the population size of each country.

Still, these comparisons may not tell the whole story. *Per capita GDP* can be deceiving, because of the income equality where the wealth of a country may be concentrated in the hands of a few, whereas most of its citizens don't have the means to obtain basic necessities. Furthermore, the costs of the same goods and services are much lower in some global markets. This is why it's important for companies that want to enter a foreign market to consider exchange rates as well.

The foreign exchange rate that we mentioned earlier is simply the price of a nation's currency in terms of what a bank will exchange it for with another currency. For example, if we want to know how much a U.S. dollar is worth in countries that are members of the

gross domestic product (GDP)

The total dollar value of goods and services produced by a nation within its borders in a year.

Table 2.2 | Selected Comparisons of Economic and Demographic Characteristics

	Democratic Republic of Congo	India	China	Brazil	Russia	United States	Qatar
Ranking*	2	61	103	107	135	177	185
Total GDP	\$63.27 Billion	\$8.027 Trillion	\$11.38 Trillion	\$3,166 Trillion	\$3,471 Trillion	\$17.97 Trillion	\$324 Billion
Per capita GDP	\$800	\$6,300	\$14,300	\$15,800	\$23,700	\$56,300	\$145,000
Population below poverty level	63%	29.8%	6.1%	21.4%	11.2%	15.1%	NA
Inflation rate	1.1%	5.6%	1.5%	10.6%	15.4%	0.2%	1.6%
Unemployment rate	NA	7.1%	4.2%	6.4%	5.4%	5.2%	0.45
Population	79 Million	1,251 Million	1,367 Million	204 Million	142 Million	321 Million	2.2 Million
Birthrate per 1,000 population	34.88	19.55	12.49	14.46	11.6	12.49	9.84
Population growth rate	2.45%	1.22%	0.45%	0.77%	−0.04%	.78%	3.07%
Population aged 0–14	42.65%	28.09%	17.08%	23.27%	16.68%	19.0%	12.52%
Population aged 15–24	21.41%	18.06%	13.82%	16.47%	10.15%	13.64%	12.96%
Population aged 25–54	29.75%	40.745	47.95%	43.80%	45.54%	37.76%	70.23%
Population aged 55–64	3.56%	7.16%	11.14%	8.66%	14.01%	12.73%	3.39%
Population aged 65 and older	2.63%	5.95%	10.01%	7.8%	13.61%	14.88%	0.89%
Life expectancy	56.93 yrs	68.13 yrs	75.41 yrs	73.53 yrs	70.47 yrs	79.68 yrs	78.59 yrs
Literacy rate	63.8%	71.2%	96.4%	92%	99.7%	NA	97.3%
School life expectancy	10 yrs	12 yrs	13 yrs	14 yrs	15 yrs	16 yrs	14 yrs
Mobile phones per 100 population	48	76	94	139	155	94	156
Internet users	<1%	19.2%	46.0%	53.4%	59.3%	86.8%	96.7%

*Based on values expressed in current international dollars, reflecting a single year's (the current year) currency exchange rates and purchasing-power-parity (PPP) adjustments. The ranking goes from the poorest (#1) to the wealthiest (#185).

Source for ranking: Valentina Pasquali, "The Poorest Countries in the World," *Global Finance Magazine*, April 2, 2016, <https://www.gfmag.com/global-data/economic-data/the-poorest-countries-in-the-world?page=12> (accessed April 2, 2016); data based on, <https://www.cia.gov/library/publications/the-world-factbook/geos/rs.html> (accessed April 2, 2016). *The World Factbook* is updated biweekly.

European Union, we might find that it is only worth 87.8 cents in Europe (\$1 = €0.878). If our neighbors in Europe look at the same exchange rate with the euro as the base currency, they would find that a euro is worth about 15 percent more in the U.S. (i.e., the forex rate would be €1 = \$1.14). Why does the exchange rate matter? The rate determines the price of a product in a different country and thus a firm's ability to sell outside its borders. If the dollar becomes stronger so that for example it takes fewer dollars to equal one Euro, a dollar can buy more French wine or escargot, and customers in the U.S will buy more of it. If the dollar drops in value compared to the euro, then the dollar will buy less when you hike through Italy, whereas European tourists will flock to the U.S for a "cheap" vacation.

Of course, GDP and exchange rates alone do not provide the information marketers need to decide if a country's economic environment makes for an attractive market. They also need to consider whether they can conduct "business as usual" in another country.

economic infrastructure

The quality of a country's distribution, financial, and communications systems.

level of economic development

The broader economic picture of a country.

standard of living

An indicator of the average quality and quantity of goods and services consumed in a country.

developing countries

Countries in which the economy is shifting its emphasis from agriculture to industry.

bottom of the pyramid (BOP)

The collective name for the group of consumers throughout the world who live on less than \$2 a day.

sachet

Affordable one-use packages of cleaning products, fabric softeners, shampoo, etc., for sale to consumers in least developed and developing countries.

BRICS countries

Also referred to as the brics, Brazil, Russia, India, China, and South Africa are the fastest growing of the developing countries. With more than 3 billion people, they represent over 42% of the world's population and about 20% of the gross world product.

A country's **economic infrastructure** refers to the availability of the resources that make doing business in a country possible. These resources include transportation, distribution networks, financial institutions, communications networks, and energy resources. For example, countries with less-developed financial institutions may operate as a cash economy in which consumers and business customers must pay for goods and services with cash rather than with credit cards or checks. In poorer countries without good road systems, sellers may use donkey carts, hand trucks, or bicycles to deliver goods to the many small retailers who are their customers.

Level of Economic Development

When marketers scout the world for opportunities, it helps to consider a country's **level of economic development**. Economists look past simple facts such as growth in GDP to decide this; they also look at what steps the country is taking to reduce poverty, inequality, and unemployment. Analysts also take into account a country's **standard of living**, an indicator of the average quality and quantity of goods and services a country consumes. They describe the following three basic levels of development:

1. As we said earlier, a country at the lowest stage of economic development is a least developed country (LDC). In most cases, its economic base is agricultural. Analysts consider many nations in Africa and South Asia to be LDCs. In LDCs, the standard of living is low, as are literacy levels. Opportunities to sell many products, especially luxury items such as diamonds and caviar, are minimal because most people don't have enough spending money. They grow what they need and barter for the rest. These countries are attractive markets for staples such as rice and inexpensive goods such as shoes and fabrics from which people can make clothing. In addition, they present opportunities for new products that these consumers need, such as solar-operated mobile phones and computers that will survive without air conditioning.
2. When an economy shifts its emphasis from agriculture to industry, standards of living, education, and the use of technology rise. These countries are **developing countries**. In such locales, there may be a viable middle class, often composed largely of entrepreneurs working hard to run successful small businesses. Because more than 8 out of 10 consumers now live in developing countries, the number of potential customers and the presence of a skilled labor force attract many firms to these areas. Marketers see these developing countries as the future market for consumer goods like skin care products and laundry detergents.

Within these LDCs and developing countries is a group of consumers known as the **bottom of the pyramid (BOP)**, which is the collective name for the group of more than 4 billion consumers throughout the world who live on less than \$2 a day.¹⁴ These BOP consumers represent a potentially huge marketing opportunity with purchasing power parity of \$5 billion. They also present a big challenge for marketers, as unlike other consumer groups, they generally are unable to afford to purchase "inventory," such as a bottle of shampoo. Procter & Gamble, Unilever, and other companies meet these needs when they offer cleaning products, fabric softeners, and shampoo that can be used in cold water in affordable one-use **sachet** packaging.

The largest of the developing or newly industrialized countries—Brazil, Russia, India, China and South Africa—are referred to as the **BRICS countries**, or simply as the BRICS. Originally known as "BRIC," they became BRICS when South Africa joined in 2010. These five countries are the fastest growing of the developing countries; with more than 3 billion people, they represent over 42 percent of the world's population. Their total GDP of \$16.039 trillion is equivalent to about 20 percent of the gross world product (GWP). Marketers are attracted to these countries because of the masses of consumers who are not wealthy but who are beginning their move toward economic prosperity.¹⁵ The BRICS present exciting opportunities to marketers, but we must approach with

caution because of the many ups-and-downs that make these economies unstable. As examples, the political crisis in Brazil discourages foreign investment, Russia's "oil rush" has been reduced to a trickle because of the drop in oil prices, and China's exploding economy is starting to sputter.

A **developed country** boasts sophisticated marketing systems, strong private enterprise, and bountiful market potential for many goods and services. Such countries are economically advanced, and they offer a wide range of opportunities for international marketers.

In 1976, the most economically developed countries in the world—France, West Germany, Italy, Japan, the U.K, and the U.S.—formed what became known as the Group of Six, or G6. Later with the addition of Canada in 1976 and Russia in 1998, the G6 became the Group of Eight (G8). In 2014, Russia's membership was revoked because of its involvement in the Crimean crisis, so we are down to the **Group of Seven (G7)**.¹⁶ The purpose of the G7 is to provide a way for these countries, democracies with highly developed economies, to deal with major economic and political issues that other countries and the international community face. In addition to topics of the world economy and international trade, G7 summits have more recently included discussions of other issues, such as energy, terrorism, unemployment, the information highway, crime and drugs, arms control, and the environment.¹⁷

The Business Cycle

The **business cycle** describes the overall pattern of changes or fluctuations of an economy. All economies go through cycles of *prosperity* (high levels of demand, employment, and income), *recession* (falling demand, employment, and income), and *recovery* (gradual improvement in production, lowering unemployment, and increasing income). A severe recession is a *depression*, a period during which prices fall but there is little demand because few people have money to spend and many are out of work.

Inflation occurs when prices and the cost of living rise while money loses its purchasing power because the cost of goods escalates. During inflationary periods, dollar incomes may increase, but real income—what the dollar will buy—decreases because goods and services cost more.

The business cycle is especially important to marketers because of its effect on customer purchasing behavior. During times of prosperity, consumers buy more goods and services. Marketers try to grow their businesses, maintain inventory levels and develop new products that meet customers' willingness to spend. During periods of recession, such as that experienced by countries all over the globe beginning in 2008, consumers simply buy less. They may also "trade down" as they substitute less expensive or lower-quality brands to stretch a dollar (or euro, etc.).

The Competitive Environment

A second important element of a firm's external environment is the *competitive environment*. For products ranging from toothpaste to sport utility vehicles, firms must keep abreast of what the competition is doing so they can develop new product features, new pricing schedules, or new advertising to maintain or gain market share. As we will see, marketers need to understand their competitive position among product alternatives in their micro-environment and in the structure of their industries, that is, their macroenvironment.

Like players in a global chess game, marketing managers size up their competitors according to their strengths and weaknesses, monitor their marketing strategies, and try to predict their next moves. To do this, an increasing number of firms around the globe engage in **competitive intelligence (CI)** activities where they gather and analyze publicly available information about rivals from such sources as the Internet, the news media, and publicly available government documents, such as building permits and patents. Successful CI

developed countries

A country that boasts sophisticated marketing systems, strong private enterprise, and bountiful market potential for many goods and services.

Group of 7 (G7)

An informal forum of the seven most economically developed countries that meets annually to discuss major economic and political issues facing the international community. Formerly the G8, Russia was excluded from the group as a result of its invasion of Crimea in 2014.

business cycle

The overall patterns of change in the economy—including periods of prosperity, recession, depression, and recovery—that affect consumer and business purchasing power.

competitive intelligence (CI)

The process of gathering and analyzing publicly available information about rivals.

means that a firm learns about a competitor's new products, its manufacturing processes, or the management styles of its executives. Then the firm uses this information to develop superior marketing strategies (we'll learn more about collecting marketing intelligence in Chapter 4).

Competition in the Microenvironment

Competition in the *microenvironment* means the product alternatives from which members of a target market may choose. We think of these choices at three different levels:

1. Competition for consumers' **discretionary income** or the amount of money people have left after they pay for necessities such as housing, utilities, food, and clothing. Do we plow "leftover" money into a new computer tablet, donate it to charity, or turn over a new leaf and lose those extra pounds by investing in a healthy lifestyle? These choices vary by country. For Russians, the bulk of monthly income goes to food, alcohol, and tobacco. In the United States, health care is the biggest expenditure. In Japan, housing costs take just over a quarter of the average income, while in Saudi Arabia almost 10 percent is spent on furniture.¹⁸
2. **Product competition:** Other organizations offer different ways to satisfy the same consumers' needs and wants. So, for example, if a couch potato decides to use some discretionary income to get buff, he or she may consider either joining a health club or buying a used Soloflex machine on eBay to pump iron at home might be a good idea.
3. **Brand competition,** where competitors offer similar goods or services, vying for consumer dollars. So, our flabby friend who decides to join a gym still must choose among competitors within this industry, such as Gold's Gym, Soul Cycle, or the humble YMCA, or he or she may forgo the exercise thing altogether and just buy bigger pants.

Competition in the Macroenvironment

When we talk about examining competition in the *macroenvironment*, we mean that marketers need to understand the big picture—the overall structure of their industry. This structure can range from one firm having total control to numerous firms that compete on an even playing field.

1. No, it's not just a board game: A **monopoly** exists when one seller controls a market. Because the seller is "the only game in town," it feels little pressure to keep prices low or to produce quality goods or services. In most U.S. industries today, the government attempts to ensure consumers' welfare by limiting monopolies through the prosecution of firms that engage in activities that would limit competition and thus violate antitrust regulations.
2. In an **oligopoly**, there are a relatively small number of sellers, each holding substantial market share, in a market with many buyers. Because there are few sellers, the actions of each directly affect the others. Oligopolies most often exist in industries that require substantial investments in equipment or technology to produce a product. The airline industry is an oligopoly.
3. In a state of **monopolistic competition**, many sellers compete for buyers in a market. Each firm, however, offers a slightly different product, and each has only a small share of the market. For example, many athletic shoe manufacturers, including Nike, New Balance, and Under Armour, vigorously compete with one another to offer consumers some unique benefit—even though only Adidas (at least for now) offers you a \$250 computerized running shoe that senses how hard the ground is where you are running and adapts to it.

discretionary income

The portion of income people have left over after paying for necessities such as housing, utilities, food, and clothing.

product competition

When firms offering different products compete to satisfy the same consumer needs and wants.

brand competition

When firms offering similar goods or services compete on the basis of their brand's reputation or perceived benefits.

monopoly

A market situation in which one firm, the only supplier of a particular product, is able to control the price, quality, and supply of that product.

oligopoly

A market structure in which a relatively small number of sellers, each holding a substantial share of the market, compete in a market with many buyers.

monopolistic competition

A market structure in which many firms, each having slightly different products, offer unique consumer benefits.

4. Finally, **perfect competition** exists when there are many small sellers, each offering basically the same good or service. In such industries, no single firm has a significant impact on quality, price, or supply. Although true conditions of perfect competition are rare, agricultural markets (in which there are many individual farmers, each producing the same corn or jalapeño peppers) come the closest.

perfect competition

A market structure in which many small sellers, all of whom offer similar products, are unable to have an impact on the quality, price, or supply of a product.

The Technological Environment

The *technological environment* profoundly affects marketing activities. Of course, the Internet is the biggest technological change in marketing within recent times—even bigger than hoverboards! Online sales offer consumers virtually anything they want (and even some things they don't want) without ever leaving home.

Some people believe the next innovation to be a game changer in marketing is already here. In 2013, Amazon CEO Jeff Bezos surprised CBS journalist Charlie Rose with the announcement that Amazon had been secretly working on "Prime Air," a project to use "octocopters" or **drones** to deliver packages to homes all over the country within 30 minutes.¹⁹ A drone is an unmanned aircraft or flying robot controlled remotely using GPS. Drones, also known as **unmanned aerial vehicles or UAVs**, are already in demand by hobbyists and businesses. Drones have been equally successful at filming the Golden Globes and monitoring Iowa cornfields. They have been on the sets of *Game of Thrones* and the newest *Star Wars* films. While originally placing a ban on commercial use of small drones, more recently the FAA has dropped the ban and established rules for their use, opening the way for companies like Amazon to use drones for delivery.²⁰

Successful marketers continuously scan the external business environment in search of ideas and trends to spark their own research efforts. When inventors feel they have come across something exciting, they usually want to protect their exclusive right to produce and sell the invention by applying for a **patent**. This is a legal document that grants inventors exclusive rights to produce and sell a particular invention in that country.

drones

Unmanned aerial vehicles or flying robots controlled remotely using GPS technology.

unmanned aerial vehicles (UAVs)

Another name for drones.

patent

A legal mechanism to prevent competitors from producing or selling an invention, aimed at reducing or eliminating competition in a market for a period of time.

The Political and Legal Environment

The *political and legal environment* refers to the local, state, national, and global laws and regulations that affect businesses. Legal and regulatory controls can be prime motivators for many business decisions. Although firms that choose to remain at home have to worry about local regulations only, global marketers must understand more complex political issues that can affect how they are allowed to do business around the world.

American Laws

U.S. laws governing business generally have one or both of two purposes. Some, such as the Sherman Antitrust Act and the Wheeler-Lea Act, make sure that businesses compete fairly with each other. Others, such as the Food and Drug Act and the Consumer Products Safety Commission Act, make sure that businesses don't take advantage of consumers. Although some businesspeople argue that excessive legislation only limits competition, others say that laws ultimately help firms because they maintain a level playing field for businesses and support troubled industries.

Table 2.3 lists a few of the major federal laws that protect and preserve the rights of U.S. consumers and businesses. Federal and state governments have created a host of regulatory agencies—government bodies that monitor business activities and enforce laws. Table 2.4 lists some of the agencies whose actions affect marketing activities.

Table 2.3 | Significant American Legislation Relevant to Marketers

Law	Purpose
Sherman Antitrust Act (1890)	Developed to eliminate monopolies and to guarantee free competition. Prohibits exclusive territories (if they restrict competition), price fixing, and predatory pricing.
Food and Drug Act (1906)	Prohibits harmful practices in the production of food and drugs.
Federal Trade Commission Act (FTC) (1914)	Created the Federal Trade Commission to monitor unfair practices.
Robinson-Patman Act (1936)	Prohibits price discrimination (offering different prices to competing wholesalers or retailers) unless cost justified.
Wheeler-Lea Amendment to the FTC Act (1938)	Revised the FTC Act. Makes deceptive and misleading advertising illegal.
Lanham Trademark Act (1946)	Protects and regulates brand names and trademarks.
Child Protection and Toy Safety Act (1969)	Sets standards for child-resistant packaging.
Consumer Credit Protection Act (1968)	Protects consumers by requiring full disclosure of credit and loan terms and rates.
National Do Not Call Registry (2003)	Established by the Federal Trade Commission to allow consumers to limit number of telemarketing calls they receive.
Credit Card Accountability, Responsibility, and Disclosure Act of 2009	Bans unfair rate increases, prevents unfair fee traps, requires disclosures be in plain language, and protects students and young people.
The Affordable Care Act of 2013	Mandates health care coverage for Americans who do not receive benefits through an employer. Revises insurance regulations by eliminating denial of coverage for preexisting conditions, ending lifetime limits on coverage, and so on. ²¹
Data Broker and Accountability Act of 2014 (DATA Act)	Gives consumers access to files of personal information a data broker compiles, the ability to correct inaccuracies, and the chance to opt out of the sale of that data to other companies.
USA Freedom Act of 2015	A result of Edward Snowden's revelations about the National Security Agency's (NSA) practices regarding collecting and monitoring of phone conversations. Requires that phone metadata be stored by phone companies, not the U.S. government.

Table 2.4 | U.S. Regulatory Agencies and Responsibilities

Regulatory Agency	Responsibilities
Consumer Product Safety Commission (CPSC)	Protects the public from potentially hazardous products. Through regulation and testing programs, the CPSC helps firms make sure their products won't harm customers.
Environmental Protection Agency (EPA)	Develops and enforces regulations aimed at protecting the environment. Such regulations have a major impact on the materials and processes that manufacturers use in their products and thus on the ability of companies to develop products.
Federal Communications Commission (FCC)	Regulates telephone, radio, TV and more recently the use of the Internet. FCC regulations directly affect the marketing activities of companies in the communications industries, and have indirect effects on all firms that use these media.
Federal Trade Commission (FTC)	Enforces laws, primarily through fines, against deceptive advertising and product labeling regulations.
Food and Drug Administration (FDA)	Enforces laws and regulations on foods, drugs, cosmetics, and veterinary products. FDA approval is required before marketers can introduce many products to the market.
Interstate Commerce Commission (ICC)	Regulates interstate bus, truck, rail, and water operations and therefore affects the ability of a firm to efficiently move products to its customers.

Political Constraints on Trade

Global firms know that the political actions a government takes can drastically affect their business operations. At the extreme, of course, when two countries go to war, the business environment changes dramatically.

Short of war, a country may impose *economic sanctions* that prohibit trade with another country as the U.S. has done with several countries, including Cuba, North Korea, and, more recently, Russia. After Russia invaded eastern Ukraine in 2014, the U.S. and European countries increased economic sanctions against the country. In retaliation, Russia banned the import of certain foods from the European Union and other countries.²²

In some situations, internal pressures may prompt the government to take over the operations of foreign companies that do business within its borders. **Nationalization** occurs when the domestic government reimburses a foreign owned company (often not for the full value) for its assets after taking it over. One of the more famous examples of nationalization occurred when Egyptian president Gamal Abdel Nasser nationalized the Suez Canal Company in 1956. Similarly, following World War II, Germany and other European countries nationalized privately owned businesses. **Expropriation** is when a government seizes a foreign company's assets without any reimbursement (and that firm is just out of luck). In 1959, following the Cuban Revolution, the Cuban government expropriated all foreign-owned private companies, most of which were owned by U.S. firms or individuals. Now that the U.S. has normalized relations with Cuba, will these firms seek reimbursement for their lost property?

Regulatory Constraints on Trade

Governments and economic communities regulate what products are allowed in the country, what products should be made of, and what claims marketers can make about them. Other regulations ensure that the host country gets a piece of the action. **Local content rules** are a form of protectionism that stipulates that a certain proportion of a product must consist of components supplied by industries in the host country or economic community. For example, Brazil has recently tightened its local content rules regarding the manufacture and assembly of wind turbines. Under these rules, a minimum of 70 percent of the steel plates and 100 percent of the cement used to build the towers must be of Brazilian origin. In addition, the tower's nacelles (the assemblies that house the machinery) must be assembled locally.²³ Such rules ensure that Brazil is able to create more domestic manufacturing jobs for its citizens.

Human Rights Issues

Some governments and companies are vigilant about denying business opportunities to countries that mistreat their citizens. They are concerned about conducting trade with local firms that exploit their workers or that keep costs down by employing children or prisoners for slave wages or by subjecting workers to unsafe working conditions, like locked factory doors. Nike, once the poster child for unsafe labor practices, has spent almost two decades admitting to and correcting its formerly abusive practices with increased wages and factory audits, and is now a company others can learn from and look up to.²⁴

The U.S. Generalized System of Preferences

The **U.S. Generalized System of Preferences (GSP)** is a program Congress established to promote economic growth in the developing world. GSP regulations allow developing

nationalization

When a domestic government reimburses a foreign company (often not for the full value) for its assets after taking it over.

expropriation

When a domestic government seizes a foreign company's assets without any reimbursement.

local content rules

A form of protectionism stipulating that a certain proportion of a product must consist of components supplied by industries in the host country or economic community.

U.S. Generalized System of Preferences (GSP)

A program to promote economic growth in developing countries by allowing duty-free entry of goods into the U.S.



Jodi Cobb/National Geographic Creative/Getty Images/Alamy Stock Photo

A culture's history often influences the way people respond to products. What does Spam mean to you?

demographics

Statistics that measure observable aspects of a population, including size, age, gender, ethnic group, income, education, occupation, and family structure.

cultural values

A society's deeply held beliefs about right and wrong ways to live.

countries to export goods duty free to the U.S. The catch is that each country must constantly demonstrate that it is making progress toward improving the rights of its workers. On the other side of the coin, the low wages that U.S. firms can pay to local workers often entices them to expand or entirely move their operations overseas. Although they provide needed jobs, some companies have been criticized for exploiting workers when they pay wages that fall below local poverty levels, for damaging the environment, or for selling poorly made or unsafe items to consumers.

The Sociocultural Environment

The *sociocultural environment* refers to the characteristics of the society, the people who live in that society, and the culture that reflects the values and beliefs of the society. Whether at home or in global markets, marketers need to understand and adapt to the customs, characteristics, and practices of its citizens. Basic beliefs about cultural priorities, such as the role of family or proper relations between the sexes, affect people's responses to products and promotional messages in any market.

To understand some of these values requires a knowledge of a culture's history. For example, someone who appreciates that South Korea has long had a significant U.S. military presence might not be as surprised to learn that SPAM—that American mystery meat—sells \$235 million of the pork shoulder product there every year. During the Korean War, food was scarce and only a select few Koreans could gain access to PX stores on U.S. military bases. As a result the humble product became a status symbol; and it remains so today though many young Koreans who love to order “military stew” have no idea of its origins.²⁵

Demographics

The first step toward understanding the characteristics of a society is to look at its **demographics**. These are statistics that measure observable aspects of a population, such as population size, age, gender, ethnic group, income, education, occupation, and family structure. The information demographic studies reveal is of great value to marketers when they want to predict the size of markets for many products, from home mortgages to brooms and can openers. We'll talk more about how demographic factors impact marketing strategies in Chapter 7.

Tupperware's explosive growth in overseas markets illustrates the importance of demographics. Faced with a static market (for one thing, many American women work so having Tupperware parties isn't as easy as it used to be), the company is prospering by planting its flag in other countries where there are more favorable conditions. One such sweet spot is Indonesia. It turns out there is an Indonesian tradition called an *arisan* (“gathering”) where women meet with a group of friends to socialize, share recipes and even pool their money to buy gifts for one another. Tupperware, which relies on social networks like these, sends sellers to *arisans* to promote their products and to recruit new agents. For the container company, it's a natural fit.²⁶

Values

Every society has a set of **cultural values**, or deeply held beliefs about right and wrong ways to live, that it imparts to its members.²⁷ Those beliefs influence virtually every aspect of our lives, even the way we mark the time we live them. For example, for most

Americans, *punctuality* is a core value; indeed, business leaders often proclaim that “time is money.” For countries in Latin America and other parts of the world, this is not at all true. If you schedule a business meeting at 10:00, you can be assured most people will not arrive until around 10:30—or later.

These differences in values often explain why marketing efforts that are a big hit in one country can flop in another. In 2009, Mattel sought to invade China with a 36,000 square foot store in the most fashionable area of Shanghai. Barbie could get all her needs met in the store from a fashion consultation to getting lots of Barbie dolls and clothes.

Two years later the House of Barbie closed. What went wrong? Mattel failed to understand differences in values of Chinese and American families. The doll was too frivolous for parents who only have one child and who emphasize education over style. Two years after the House of Barbie closed, Mattel reintroduced Barbie as “Violin Soloist” Barbie, targeting Chinese parents who want their daughters to be “geniuses.”²⁸

One important dimension on which cultures differ is their emphasis on collectivism versus individualism. In **collectivist cultures**, such as those we find in Venezuela, Pakistan, Taiwan, Thailand, Turkey, Greece, and Portugal, people tend to subordinate their personal goals to those of a stable community. In contrast, consumers in **individualist cultures**, such as the U.S., Australia, Great Britain, Canada, and the Netherlands, tend to attach more importance to personal goals, and people are more likely to change memberships when the demands of the group become too costly.²⁹

You may not do the Downward Facing Dog, but if like many other consumers you love to shop at Lululemon, you probably look like you do. The *yoga* craze is sweeping America, but not surprisingly it’s (for now at least) even bigger in India, where it originates. *Yoga* is closely tied to other long-standing spiritual practices in that country that link to food, medicinal treatments (*Ayurveda*), and even home furnishings. Indian consumers crave modern versions of these products, and a new wave of businesspeople known as the “Baba Cool Movement” are giving them what they want as they market healthy items based upon ancient beliefs. For example, Baba Ramdev is a *swami* (holy man), but he’s also an effective marketer who translates traditional values into modern versions. He and other entrepreneurs have been so successful that sales of large multinationals have suffered. They in turn have to adapt or die—that is why Colgate recently introduced toothpastes containing the extract of neem, an Indian tree, and charcoal that Indian villagers use to clean their teeth.³⁰

Social Norms

Values are general ideas about good and bad behaviors. From these values flow **social norms**, or specific rules that dictate what is right or wrong, acceptable or unacceptable, within a society. Social norms indicate what ways to dress, how to speak, what to eat (and how to eat), and how to behave. For example, local customs dictate the appropriate hour at which the meal should be served—many Europeans, Middle Easterners, and Latin Americans do not begin dinner until around 9:00



Amnesty International campaigns for human rights around the world. This Swiss ad aims to combat domestic abuse.

collectivist cultures

Cultures in which people subordinate their personal goals to those of a stable community.

individualist cultures

Cultures in which people tend to attach more importance to personal goals than to those of the larger community.

social norms

Specific rules dictating what is right or wrong, acceptable or unacceptable.



It's common for store employees in Japan to wear uniforms, which help to symbolize the collective culture in that country.



Marketers often “borrow” imagery from other cultures to communicate with local customers. This ad is for a Mexican restaurant in Brazil.

p.m. or later, and they are amused by American visitors whose stomachs growl by 7:00 p.m. Customs tell us how to eat the meal, including such details as the utensils, table etiquette, and even the appropriate apparel for dinnertime (no thongs at the dinner table!).

Conflicting customs can be a problem when U.S. marketers try to conduct business in other countries where executives have different ideas about what is proper or expected. These difficulties even include body language; people in Latin countries tend to stand much closer to each other than do Americans, and they will be insulted if their counterpart tries to stand farther away.

In many countries, even casual friends greet each other with a kiss (or two) on the cheek. In the U.S., one should kiss only a person of the opposite sex—and one kiss only, please. In Spain and other parts of Europe, kissing includes a kiss on each cheek for both people of the same and the opposite sex, whereas in the Middle East, unless a special friend, it is unacceptable for a man to kiss a woman or a woman to kiss a man. Instead, it is the norm to see two men or two women holding hands or walking down the street with their arms entwined.

Language

The language barrier is one obvious problem that confronts marketers who wish to break into foreign markets. A notice at a hotel in Acapulco proclaimed, “The manager has personally passed all the water served here.” These translation snafus are not just embarrassing. They can affect product labeling and usage instructions, advertising, and personal selling as well. It’s vital for marketers to work with local people who understand the subtleties of language to avoid confusion. Tell that to Audi, which may encounter a bit of trouble when it sells its new e-tron line of electric cars in France. In the French language, the word *Étron* doesn’t conjure up images of speed, sustainability, or sophistication—it means another four-letter word that starts with s.³¹

Consumer Ethnocentrism

Ethnocentrism refers to the belief that one’s own national or ethnic group is superior to others. Similarly, **consumer ethnocentrism** refers to consumers’ beliefs about products produced in their country versus those from another. Consumers may feel that products from their own country are superior, or they may feel it is wrong, immoral, or unpatriotic to buy products produced in another country. Consumer ethnocentrism can cause consumers to be unwilling to try products made elsewhere.

consumer ethnocentrism

Consumers’ feeling that products from their own country are superior or that it is wrong to buy products produced in another country.

2.4

OBJECTIVE

Explain some of the strategies and tactics that a firm can use to enter global markets.

(pp. 48–53)

How “Global” Should a Global Marketing Strategy Be?

Going global is not a simple task. Even a company known for its keen marketing prowess can make blunders when it reaches beyond its familiar borders. Disney, for example, learned several lessons from mistakes it made when it opened Hong Kong Disneyland.³²

- Bigger is better. Unlike giant American parks, which Chinese visitors to the U.S. are accustomed to, Hong Kong Disneyland is Disney’s smallest park, easily seen in a single day.

- Cinderella who? Chinese visitors know characters from recent movies like *Toy Story*, but they didn't grow up hearing about Cinderella, so that emotional connection to Disney's traditional characters is lacking, even though they're seen throughout the park.

When Disney opened its first mainland China Disney theme park in June, 2016, in Shanghai, it was clear that the company learned its lesson. Unlike the Hong Kong Disneyland, the new park includes the Enchanted Storybook Castle—the largest Disney castle on the planet, and six unique and unforgettable lands that relate to Disney characters Chinese families are familiar with: Mickey Avenue, Gardens of Imagination, Fantasyland, Adventure Isle, Treasure Cove, and Tomorrowland. There is also a Toy Story hotel.³³

Company-Level Decisions: The Market Entry Strategy

If a firm decides to expand beyond its home country, it must make important decisions about how to structure its business and whether to adapt its product marketing strategy to accommodate local needs. Just like a romantic relationship, a firm must determine the level of commitment it is willing to make to operate in another country. This commitment ranges from casual involvement to a full-scale “marriage.” At one extreme the firm simply exports its products, whereas at the other extreme it directly invests in another country by buying a foreign subsidiary or opening its own stores or manufacturing facility. This decision about the extent of commitment entails a trade-off between *control* and *risk*. Direct involvement gives the firm more control over what happens in the country, but its risk also increases if the operation is not successful.

Let's review four globalization strategies representing increased levels of involvement: exporting, contractual arrangements, strategic alliances, and direct investment. Table 2.5 summarizes these options.

Exporting

If a firm chooses to export, it must decide whether it will attempt to sell its products on its own or rely on intermediaries to represent it in the target country. These specialists, or **export merchants**, understand the local market and can find buyers and negotiate terms. An exporting strategy allows a firm to sell its products in global markets and cushions it against downturns in its domestic market. Because the firm actually makes the products at home, it is able to maintain control over design and production decisions.

Contractual Agreements

The next level of commitment a firm can make to a foreign market is a contractual agreement with a company in that country. Two of the most common forms of contractual agreements are licensing and franchising:

1. In a **licensing agreement**, a firm (the *licensor*) gives another firm (the *licensee*) the right to produce and market its product in a specific country or region in return for royalties on goods sold. The licensee is able to avoid many of the barriers to entry that the licensor would have but the licensor also loses control over how the product is produced and marketed.
2. **Franchising** is a form of licensing that gives the franchisee the right to adopt an entire way of doing

export merchants

Intermediaries a firm uses to represent it in other countries.

licensing agreement

An agreement in which one firm gives another firm the right to produce and market its product in a specific country or region in return for royalties.

franchising

A form of licensing involving the right to adapt an entire system of doing business.



Many consumers today hunger for new variations of familiar products from around the world. This German ad for crisps (i.e., potato chips) reads, “Discover Africa’s spiciest secret.”

Table 2.5

Market-Entry Strategies

Strategy	Exporting Strategy	Contractual Agreements		Strategic Alliances	Direct Investment
Level of risk	Low	Medium		Medium	High
Level of control	Low	Medium		Medium	High
Options	Sell on its own Rely on export merchants	Licensing License a local firm to produce the product	Franchising A local firm adopts your entire business model	Joint venture, where firm and local partner pool their resources	Complete ownership often buying a local company
Advantages	Low investment, so presents the lowest risk of financial loss Can control quality of product Avoid difficulties of producing some products in other countries	Avoid barriers to entry Limit financial investment and thus risk	Local franchisee avoids barriers to entry Limit financial investment and risk	Easy access to new markets Preferential treatment by governments and other entities	Maximum freedom and control Avoid import restrictions
Disadvantages	May limit growth opportunities Perceived as a “foreign” product	Lose control over how product is produced and marketed, which could tarnish company and brand image Potential unauthorized use of formulas, designs, or other intellectual property	Franchisee may not use the same-quality ingredients or procedures, thus damaging brand image	High level of financial risk	Highest level of commitment and financial risk Potential for nationalization or expropriation if government is unstable

business in the host country. Firms need to monitor these operations carefully to ensure the partner maintains their brand image.

Strategic Alliances

Firms that choose to develop an even deeper commitment to a foreign market enter a **strategic alliance** with one or more domestic firms in the form of a **joint venture**, in which two or more firms create a new entity. Strategic alliances also allow companies easy access to new markets and preferential treatment in the partner’s home country.

Direct Investment

An even deeper level of commitment occurs when a firm expands internationally through ownership. When a firm buys all or part of a domestic firm, it can take advantage of a domestic company’s political savvy and market position in the host country.

Marketing Mix Strategies

In addition to “big-picture” decisions about how a company will operate in other countries, managers must decide on how to market their product in each country. Do they need to modify or create new Four Ps—product, price, promotion, and place—to suit local conditions?

Standardization versus Localization

When they go global, marketers ask such questions as these:

1. To what extent will the company need to adapt its marketing communications to the specific styles and tastes of each local market?

strategic alliance

Relationship developed between a firm seeking a deeper commitment to a foreign market and a domestic firm in the target country.

joint venture

A strategic alliance in which a new entity owned by two or more firms allows the partners to pool their resources for common goals.

2. Will the same product appeal to people there?
3. Will it have to be priced differently?
4. And, of course, how does the company get the product into people's hands?

Marketers must decide which is better—*standardization* or *localization*? Advocates of standardization argue that basic needs and wants are the same everywhere. A focus on the similarities among cultures means a firm doesn't have to make any changes to its marketing strategy to compete in foreign countries and can realize large economies of scale because it can spread the costs of product development and promotional materials over many markets. Widespread, consistent exposure also helps create a global brand like Coca Cola because it forges a strong, unified image all over the world.

In contrast, those in favor of localization feel that the world is not *that* small; you need to tailor products and promotional messages to local environments. These marketers argue that each culture is unique, with a distinctive set of behavioral and personality characteristics. If you visit the World of Coke in Atlanta, you can sample the products Coke sells around the globe.

To P or Not to P: Tweak the Marketing Mix

Once a firm decides whether it will adopt standardization or a localization strategy, it is time to plan for the Four Ps.

Product Decisions

A firm has three localization/standardization choices when it decides on a product strategy: to offer the same, a modified, or a new product:

1. A **straight extension strategy** (standardization) retains the same product for domestic and foreign markets. The Apple iPad is a good example of a straight extension strategy. No matter where you go in the world, every iPad is basically the same.
2. A **product adaptation strategy** (modified localization) recognizes that in many cases people in different cultures do have strong and different product preferences. Sometimes these differences can be subtle yet important. In South Korea, for example, the familiar pink and orange neon Dunkin' Donuts sign beckons customers inside to sample its gourmet coffee and traditional glazed donuts, but also on the menu is more Korean fare, such as black rice donuts, jalapeño sausage pie donuts, and rice sticks.³⁴

A product adaptation strategy also means a company adapts the same basic product to sync with local sensibilities. You may fondly recall Thomas the Tank Engine and his locomotive pals from your youth. Thomas is, in fact, one of the world's largest toy and TV franchises that delivers more than \$1 billion per year to Mattel, which bought the company in 2012. Mattel started to catch some heat about the lack of diversity of Thomas's friends, who are primarily male and white. Mattel's answer: The company is introducing 14 new friends (four are female) who represent different countries. You can decide whether these new characters are valuable additions to the team, or if they just reflect cultural stereotypes. Here's a sample of them:³⁵

Raul of Brazil: "feisty"; "strong and agile."

Yong Bao of China: "driven to achieve and make progress."

straight extension strategy

Product strategy in which a firm offers the same product in both domestic and foreign markets.

product adaptation strategy

Product strategy in which a firm offers a similar but modified product in foreign markets.



This Turkish ad for CNN implies that everyone has at least some things in common.

product invention strategy

Product strategy in which a firm develops a new product for foreign markets.

backward invention

Product strategy in which a firm develops a less advanced product to serve the needs of people living in countries without electricity or other elements of a developed infrastructure.

Ashima of India (female): “shows no fear”; “happy to help out.”

Carlos of Mexico: “proud”; “always wearing a smile.”

3. A **product invention strategy** (localization) means a company develops a new product as it expands to foreign markets. In some cases, a product invention strategy takes the form of **backward invention**. For example, there are still nearly one and a half billion people or more than 20 percent of the world’s population who have no access to reliable electricity, primarily in Africa, Asia, and the Middle East. This provides a challenge for firms to develop products such as refrigerators, smartphones, and computers that can operate without electric power.³⁶

Many of these people use kerosene lamps for light that are hazardous to both themselves and the environment. Here are just a few startling statistics:

- Fumes from kerosene lamps kill approximately 1.5 million African women and children annually.
- More than 1.5 million people in India suffer burns from kerosene lamps each year.
- Kerosene lamps burn fossil fuels and emit carbon dioxide (more than two pounds annually when used daily for four hours), contributing to greenhouse gas emissions.³⁷

To combat these and other serious problems co-creators Jim Reeves and Martin Riddiford developed the \$5 GravityLight, a small, batteryless LED that is powered by gravity. The light, which is attached to a bag filled with up to 28 pounds of sand, dirt, or rock (or whatever you have handy), works when the bag is hoisted into the air. As gravity pulls the weight of the bag downward, a notched belt spins a series of gears that drives the motor for the light. After you’ve used up approximately 25 minutes of light, you simply raise up the weight for another go.³⁸ As long as you’ve got a little muscle, you’ve got sustainable light.

Promotion Decisions

Marketers must also decide whether it’s necessary to modify how they speak to consumers in a foreign market. Some firms endorse the idea that the same message will appeal to everyone around the world, whereas others feel the need to customize it. Unilever, maker of Lipton tea, is doing a bit of both in its first-ever global ad campaign to encourage its current and would-be tea drinkers to “Be More Tea”—that is, to “get off autopilot.” The ads, which star Kermit the Frog from *The Muppets*, target both hot-tea and iced-tea drinkers. Although all of the global ads will include the same “Be More Tea” slogan (or translations thereof), only those global markets where *The Muppets* are well known will feature ads starring Kermit.³⁹

Price Decisions

It’s often more expensive to manufacture a product in a foreign market than at home. This may occur when there are higher costs stemming from transportation, tariffs, differences in currency exchange rates, and the need to source local materials. To ease the financial burden of tariffs on companies that import goods, some countries have established **free trade zones**. These are designated areas where foreign companies can warehouse goods without paying taxes or customs duties until they move the goods into the marketplace.

One danger of pricing too high is that competitors will find ways to offer their product at a lower price, even if they do so illegally. **Gray market goods** are items that are imported without the consent of the trademark holder. Although gray market goods are not counterfeit, they may be different from authorized products in warranty coverage

free trade zones

Designated areas where foreign companies can warehouse goods without paying taxes or customs duties until they move the goods into the marketplace.

gray market goods

Items manufactured outside a country and then imported without the consent of the trademark holder.

and compliance with local regulatory requirements. Products such as toothpaste and pharmaceuticals may have the same formula but consist of inferior ingredients. The Internet offers exceptional opportunities for marketers of gray market goods ranging from toothpaste to textbooks. But, as the saying goes, “If it seems too good to be true, it probably is.”

Another unethical and often illegal practice is **dumping**, through which a company prices its products lower than it offers them at home. This removes excess supply from home markets and keeps prices up there. And dumping isn’t relegated to just retail products—agricultural products can be dumped, too.

dumping

A company tries to get a toehold in a foreign market by pricing its products lower than it offers them at home.

Place/Distribution Decisions

Getting your product to consumers in a remote location can be quite a challenge. It’s essential for a firm to establish a reliable distribution system if it’s going to succeed in a foreign market. Marketers used to dealing with a handful of large wholesalers or retailers in their domestic market may have to rely instead on thousands of small “mom-and-pop” stores or distributors, some of whom transport goods to remote rural areas on oxcarts, wheelbarrows, or bicycles. In LDCs, marketers may run into problems when they want to package, refrigerate, or store goods for long periods.

So far we’ve talked about marketers’ need to understand the external environment and make good marketing mix decisions to be successful both at home and globally. In the next section, we’ll discuss an even more important part of long-term marketing success: ethical marketing practices.

2.5 Ethics Is Job One in Marketing Planning

OBJECTIVE

Understand the importance of ethical marketing practices.

(pp. 53–57)

It’s hard to overemphasize the importance of ethical marketing decisions. Businesses touch many stakeholders, and they need to do what’s best for all of them where possible. On a more selfish level, unethical decisions usually come back to bite you later. The consequences of low ethical standards become visible when you consider the number of highly publicized corporate scandals that have made news headlines since the turn of the century. The fallout from unethical practices often means people lose their jobs and even their pensions. Stockholders lose their investments and consumers pay for worthless merchandise or services.

In 2015, the U.S. Environmental Protection Agency (EPA) accused Volkswagen AG of dodging air-pollution requirements by fitting about 482,000 U.S. diesel-powered vehicles with a “defeat device” in the form of computer software that would make the cars appear to be running cleaner than they were. Later Volkswagen admitted that they had fitted 8 million vehicles with the software. The result: Volkswagen’s stock value plunged, sales dropped, car owners and investors filed lawsuits, and Volkswagen was last in *Fortune* magazine’s 2016 ranking of the 100 largest companies by business reputation.⁴⁰

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Ethical Philosophies

Of course, what constitutes ethical behavior is often different for different people. We can point to various ethical philosophies and look at how each guides people to make their decisions. Table 2.6 presents a few of these different philosophies and how they reflect on ethical decision making.

Table 2.6 | Some Common Ethical Philosophies

Ethical Philosophy	Description of the Ethical Decision	Questions for Decision Making
Utilitarian approach	The decision that provides the most good or the least harm (i.e., the best balance of good and harm).	Which option will produce the most good and do the least harm?
Rights approach	The decision that does the best job of protecting the moral rights of all affected. These include the following: • The rights to decide what kind of life to lead • The right to be told the truth • The right not to be injured • The right to privacy	Which option best respects the rights of all who have a stake?
Fairness or justice approach	The decision that treat all human beings equally—or, if unequally, then fairly based on some standard that is defensible.	Which option treats people equally?
Common good approach	The decision that contributes to the good of all in the community.	Which option best serves the community as a whole, not just some members?
Virtue approach	The decision is in agreement with certain ideal virtues. Honesty, courage, compassion, generosity, tolerance, love, fidelity, integrity, fairness, self-control, and prudence are all examples of virtues.	Which option leads me to act as the sort of person I want to be?

utilitarian approach
Ethical philosophy that advocates a decision that provides the most good or the least harm.

rights approach
Ethical philosophy that advocates the decision that does the best job of protecting the moral rights of all.

fairness or justice approach
Ethical philosophy that advocates the decision that treats all human beings equally.

common good approach
Ethical philosophy that advocates the decision that contributes to the good of all in the community.

virtue approach
Ethical philosophy that advocates the decision that is in agreement with certain ideal values.

ethical relativism
Suggests that what is ethical in one culture is not necessarily the same as in another culture.

business ethics
Basic values that guide a firm’s behavior.

For example, if one uses the *utilitarian approach* to make a decision on different safety features to include in a new product, the ethical choice is the one that provides the most good and the least harm. The *fairness or justice approach* suggests that the ethical decision about employee compensation is to pay everyone the same or to be able to justify why one salary is higher than another.

Of course, there are other factors that influence behavior. **Ethical relativism** suggests that what is ethical in one culture is not necessarily the same as in another culture. In other words, what is right or wrong is relative to the moral norms within the culture. Business leaders who have experienced a sheltered life in American companies are often shocked to find that they cannot expect the same ethical standards of others in the global community. Westerners, for example, are often painfully honest. If an American business contact cannot meet a deadline or attend a meeting or provide the needed services, he or she will normally say so. In other cultures, the answer, even if untrue, will always be “yes.” Westerners see such dishonest answers as unethical, but in some areas of the world, people believe saying “no” to any request is extremely rude—even if there’s no way they intend to honor the request.

Codes of Business Ethics

Ethics are rules of conduct—how most people in a culture judge what is right and what is wrong. **Business ethics** are basic values that guide the behavior of individuals within a business organization. Ethical values govern all sorts of marketing planning decisions that managers make, including what goes into their products, where they source raw materials, how they advertise, and what type of pricing they establish. Developing sound business ethics is a major step toward creating a strong relationship with customers and others in the marketplace.

To let employees and other stakeholders know definitively what is expected of them, many firms develop their own **code of ethics**—written standards of behavior to which everyone in the organization must subscribe—as part of the planning process. For example, AT&T’s *Code of Business Conduct*, an 11-page document available via its website at www.att.com, details its commitments to honesty and to each other (to act with integrity and create a safe workplace), to the business and its shareholders (to work lawfully and to protect physical assets and intellectual property), to its customers (to follow ethical sales practices and guard customer communications), to its communities (to be responsible for the environment), to others (to maintain integrity in recording and reporting and to comply with antitrust laws), and to the code itself.⁴¹

To help marketers adhere to ethical behavior in their endeavors, the American Marketing Association (AMA) developed a code of ethics for marketers. We present the highlights of that code in Table 2.7.

code of ethics

Written standards of behavior to which everyone in the organization must subscribe.

Is Marketing Unethical?

Most marketers want to be ethical. Some follow the Rights Approach Philosophy and behave ethically because it’s the right thing to do, whereas others are motivated by a desire not to get into trouble with consumers or government regulators. Still there are

Table 2.7 | Highlights of the American Marketing Association Statement of Ethics

Ethical Norms and Values for Marketers

PREAMBLE

The American Marketing Association commits itself to promoting the highest standard of professional ethical norms and values for its members (practitioners, academics, and students). Norms are established standards of conduct that are expected and maintained by society and/or professional organizations. Values represent the collective conception of what communities find desirable, important and morally proper. Values also serve as the criteria for evaluating our own personal actions and the actions of others. As marketers, we recognize that we not only serve our organizations but also act as stewards of society in creating, facilitating, and executing the transactions that are part of the greater economy. In this role, marketers are expected to embrace the highest professional ethical norms and the ethical values implied by our responsibility toward multiple stakeholders (e.g., customers, employees, investors, peers, channel members, regulators, and the host community).

ETHICAL NORMS

As Marketers, we must:

1. **Do no harm.**
2. **Foster trust in the marketing system.**
3. **Embrace ethical values**

ETHICAL VALUES

Honesty—to be forthright in dealings with customers and stakeholders.

Responsibility—to accept the consequences of our marketing decisions and strategies.

Respect—to acknowledge the basic human dignity of all stakeholders.

Transparency—to create a spirit of openness in marketing operations.

Citizenship—to fulfill the economic, legal, philanthropic, and societal responsibilities that serve stakeholders.

IMPLEMENTATION

We expect AMA members to be courageous and proactive in leading and/or aiding their organizations in the fulfillment of the explicit and implicit promises made to those stakeholders.

The American Marketing Association helps its members adhere to ethical standards of business through its Code of Ethics.

Source: Copyright © American Marketing Association.

examples of questionable or unethical marketing. We'll discuss some of these criticisms here:

1. *Marketing serves the rich and exploits the poor:* Many marketers are concerned about their bottom line, but they also want to provide a better quality of life for all consumers, that is, the societal marketing concept that we discussed in Chapter 1. But there are exceptions. For example, because of decreasing sales of cigarettes in developed countries, tobacco companies target smokers in LDCs and developing countries and thus contribute to the health problems of those populations.⁴²
2. *Products are not safe:* Whether marketers are truly dedicated to providing their customers with the safest products possible or because of the fear of government regulation and liability issues, most firms do make safe products and, if they find a problem, quickly notify customers and recall the defective product.
3. *Poor-quality products:* Many people bemoan the loss of U.S. manufacturing, feeling that imported products such as textiles and furniture are of poor quality. Product quality, however, is determined by what consumers want in a product. Do you want a refrigerator that lasts 50 years? Home appliance manufacturers could design and sell that, but would consumers be willing to pay what it would cost? Until consumers are willing to pay for higher quality, marketers have to provide products at the prices consumers want.
4. *Planned obsolescence:* To remain profitable, marketers must offer new products after an existing product has been on the market a period of time. The iPhone is an example. Have you noticed that about the time your cellular provider contract runs out, there is a newer and better iPhone that you just must have? For many people this is a good thing because new phones have better features. There are others who still like their old flip phone and will use it until it falls apart in their hands.
5. *Easy consumer credit makes people buy things they don't need and can't afford:* Many are concerned about businesses such as payday loan and car title loan companies that charge interest rates that can exceed 400 percent annually. Their customers typically are people with limited financial resources and even less knowledge about how to manage their money. One firm leases tires to consumers who can't afford to buy them. Of course, by the time the tires are paid off, the customer has spent enough to buy several sets of tires.

When Is a Bribe Not a Bribe? Ethical Issues for Global Business

In many LDCs and developing countries, salaries for midlevel people are, sadly, very low; the economy runs on a system we would call *blatant bribery or extortion*. Some of these “payments” are only petty corruption, and the “favors” are inconsequential, whereas others may involve high-level government or business officials and can have devastating consequences. If you need to park your car or your delivery truck illegally where there is no parking space, you give a little money to the policeman. If the shopkeeper wants the policeman to watch out for his store, he gives the policeman a shirt from his stock once in a while. If an importer wants to get her merchandise out of customs before it spoils, she pays off the government worker who can hold up her shipment for weeks. And if someone wants the contract to build a new building or wants an unsafe building to pass inspection—well, you get the idea.

Bribery occurs when someone voluntarily offers payment to get an illegal advantage.

Extortion occurs when someone in authority extracts payment under duress. The Foreign Corrupt Practices Act of 1977 (FCPA), however, puts U.S. businesses at a disadvantage

bribery

When someone voluntarily offers payment to get an illegal advantage.

extortion

When someone in authority extracts payment under duress.

because it bars them from paying bribes to sell overseas. The FCPA does, however, allow payments for “routine governmental action ... such as obtaining permits, licenses, or other official documents; processing governmental papers, such as visas and work orders; [and] providing police protection.”⁴³

2.6 Sustainability: Marketers Do Well by Doing Good

OBJECTIVE

Explain the role of sustainability in marketing planning.

(pp. 57–59)

In Chapter 1, we saw that many firms today have adopted a *triple-bottom-line orientation*. These firms don’t just look at their financial successes but also focus on how they contribute to their communities (their social bottom line) and create sustainable business practices (the environmental bottom line). Today, many believe that sustainability is no longer an option. It’s necessary, it’s happening, and it will continue to be a part of strategic planning into the future.

Why are sustainable business practices so important? It’s really simple. All of the things we need today or in the future to maintain life as we know it depend on the natural resources of our planet—air, water, our mineral resources in the earth, and ore reserves that we mine. Today, our earth’s population continues to grow at staggering rates. Economic growth, especially the growth in developing countries, means we consume our natural resources at higher rates. The massive growth of developing countries like China and India doesn’t just provide expanding marketing opportunities; the growing middle classes in these countries look at the lives of consumers in developed countries and want that same life, thus creating even greater levels of unsustainable consumption.

green customers

Those consumers who are most likely to actively look for and buy products that are eco-friendly.

Sustainability Is a Sensible Business Decision

To understand sustainable marketing better, we might go back to the marketing concept: identifying and satisfying consumer needs to ensure the organization’s long-term profitability. Sustainability adds to this the need of the firm to sustain itself and the long-term future of society.

Today we see an increasing number of firms moving toward greater sustainability by increasing operational efficiencies, decreasing their use of raw materials, conserving energy, increasing the use of recycled materials, and preventing the discharge of wastes into the natural and social environment.⁴⁴

Developing a Sustainable Marketing Mix

We can examine how some companies already implement sustainable marketing practices to gather some clues about the best ways to do that as we tweak our target marketing and Four Ps to do well by doing good:

- **Target marketing strategies:** Marketers need to understand the attitudes of their customers toward sustainability. They must know which consumers are willing to pay a few cents more for an environmentally friendly product? This allows marketers to successfully target **green customers**—those consumers who are most likely to actively look for and buy products that are eco-friendly.
- **Product strategies:** Sustainable product strategies include the use of environmentally friendly and recycled materials in products and in packaging. Marketers need to develop and put into production more environmentally



A campaign for fair trade bananas from New Zealand.

Ripped from the Headlines

Ethical/Sustainable Decisions in the Real World

Are you a *smombie*? That's smartphone plus zombie—a term the Germans have crafted for people who text and walk at the same time. For a while, it was a joke when we saw YouTube videos of people running into walls or falling over fences and into holes, all because of walking while

texting (WWT). But when garages hire guards just to save pedestrians from walking in front of a car and governments pass laws against texting while walking, it's no longer a joke.

As smartphone makers develop new phone features and there are more and more apps, the problem is increasing. Emergency room visits and even deaths of distracted pedestrians using cell phones are up. And it's not just a lack of attention. Studies show

that using a smartphone changes the way we walk: we walk slower and we can veer way off course.

The big question is what should be done about it? Some cities have put signs in stairwells and at intersections. New York has reduced speeds for cars and San Francisco has made some corridors pedestrian only. Hawaiian lawmakers have proposed a \$250 fine for anyone who crosses a street with an electronic device.

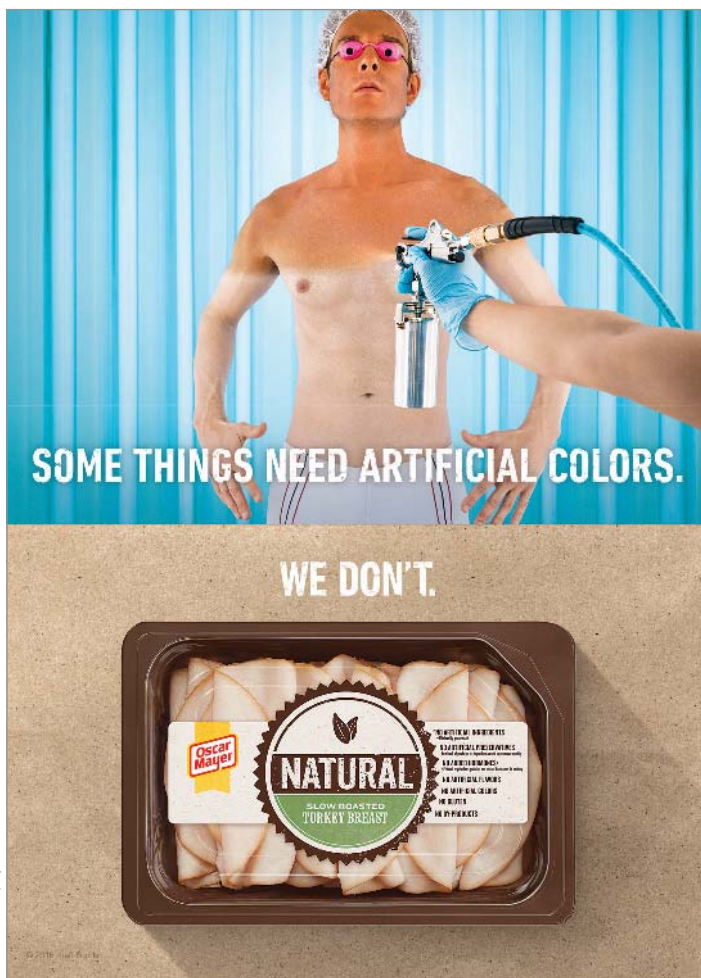
More important, however, is whether the smartphone makers have an obligation to address the problem, just as auto manufacturers have designed cars with air bags, automatic braking systems, rear view cameras, drift warning signals and warning lights if another car is close by. After all, the product engineers have developed the phones to get and keep your attention. Could phones not be designed to prevent injuries? If an activity band can detect a wearer's walking and count the steps, why can't a smartphone do the same and tell you to watch out for traffic?

Should phone companies voluntarily do this? If not, should there be government intervention?

ETHICS CHECK:

Do you think phone makers have an ethical obligation to cut down injuries and deaths from walking while texting?

☐ YES ☐ NO



The Kraft Heinz Company

American consumers' values are changing as many more of us are prioritizing "natural" food products that don't contain extra additives.

friendly products, such as electric automobiles. Some firms also strive to choose **fair trade suppliers**. This term refers to companies that outsource production only to firms that pay workers in developing countries a fair/living wage.

- **Price strategies:** Many consumers would like to buy green products, but they don't because the price is higher than comparable traditional products. Sustainable marketing practices aim to establish prices for green products that are the same or close to the prices of other products. A truly sustainable strategy actually reduces prices in the long term because it encourages more efficiency and less waste.
- **Place/distribution strategies:** Sustainable distribution strategies can include retailers who focus on a reduction in the use of energy to benefit from both monetary savings and the loyalty of green consumers. Both producers and retailers can choose to buy from nearby suppliers to reduce dependence on long-haul trucking, a major source of air pollution. Within the food industry in particular, the growing trend of **locavorism** means that many shoppers actively look for products that come from farms within 50 to 100 miles of where they live.⁴⁵
- **Promotion strategies:** The most obvious sustainable promotion strategies are those that inform customers of the firm's commitment to the planet and future generations through advertising and other messages. But there are other opportunities. The cost of creating a TV commercial is enormous and may take two or three days of shooting to complete. Some firms have begun to "reuse" old commercials while letting customers know that this is their way of practicing sustainability.

Metrics Moment

Most organizations today measure business success using the traditional bottom line—profitability—as profits are essential for the survival of both nonprofit and for-profit organizations. However, sustainable businesses take two other bottom lines into consideration: natural capital and social capital. As we said in Chapter 1, this concept is called the triple-bottom-line orientation. Every decision made by a sustainable business must not harm (or may even improve) environmental quality and must have a social/community building component. Companies should treat their employees as valuable resources and give back to their community. Luckily, the same business practices that improve environmental and social capital have been shown to also improve long-term firm profitability. When implemented, sustainable business practices provide an avenue to achieve mutual benefits in the natural world, the community, and the economy.

Sustainability metrics are tools that measure the benefits an organization achieves through the implementation of sustainability. Unfortunately, unlike many widely used financial metrics, today there is no standardized method of measuring the other two elements of the triple-bottom-line. Hence, it is extremely hard to compare one company working toward sustainability with another. The social capital metrics are possibly the hardest set of metrics to develop; there are simply too many variables to measure societal progress, and as a result, it is extremely difficult to develop standardized metrics. Nonetheless, here are five examples of fairly common sustainability metrics:

- **Material intensity:** Pounds of material wasted per unit of organizational output
- **Energy intensity:** Net fuel energy in BTUs consumed to provide organizational heat and power requirements
- **Water consumption:** Gallons of fresh water consumed per unit of organizational output
- **Toxic emissions:** Pounds of toxic materials emitted in the process of creating organizational output
- **Pollutant (greenhouse gas) emissions:** Pounds of pollutants emitted in the process of creating organizational output

Complementary metrics within each of these categories can be developed by a firm to customize a dashboard of metrics to meet its needs.⁴⁶

Apply the Metrics

1. Today, most large firms have a section on their website that points to their sustainability initiative. Select any large company that manufactures products (i.e., not a purely service firm like a bank or retail store). Review their website and find their section on sustainability (if the first firm you select doesn't have one, pick another firm to investigate).
2. What are several of the key specific activities the firm points to as evidence that they are engaged in sustainability-related activities?
3. What specific evidence do they report (i.e., what metrics do you find reported) that quantify their level of success in sustainability?

Sustainable Customer Behavior

A sustainability approach doesn't end with an improvement in manufacturing processes. Marketers also need to motivate customers to seek out, pay for, and use sustainable options. Many do buy products that minimize the use of natural resources; encourage the use of recycled, reused, and repurposed products; purchase fair-trade and organic food; use environmentally friendly cleaning products and toiletries not tested on animals; and share cars, even at the expense of higher prices, less convenience, and lower product performance. Consumers can be an important part of sustainable marketing practices when they become knowledgeable about environmental concerns and environmentally friendly products.

fair trade suppliers

Companies that pledge to pay a fair price to producers in developing countries, to ensure that the workers who produce the goods receive a fair wage, and to ensure that these manufacturers rely where possible on environmentally sustainable production practices.

locavorism

The trend for shoppers to actively look for products that come from farms within 50 to 100 miles of where they live.

sustainability metrics

Tools that measure the benefits an organization achieves through the implementation of sustainability.

MyMarketingLab™

Go to **mymktlab.com** to complete the problems marked with this icon  as well as additional Marketing Metrics questions only available in MyMarketingLab.

Objective Summary → Key Terms → Apply

CHAPTER 2

Study Map

2.1 Objective Summary (pp. 32–35)

Understand the big picture of international marketing and the decisions firms must make when they consider globalization.

The increasing amount of world trade—the flow of goods and services among countries—may take place through cash, credit payments, or countertrade. A decision to go global often comes when further domestic growth opportunities dwindle and the firm perceives likelihood for success in foreign markets as a result of a competitive advantage. After a firm has decided to go global, they must consider which markets are most attractive, what market-entry strategy is best, and how to best develop the marketing mix.

Key Terms

Greenhouse Effect, p. 32

global warming, p. 32

Arab Spring, p. 32

world trade, p. 33

countertrade, p. 33

2.2 Objective Summary (pp. 35–37)

Explain how international organizations such as the World Trade Organization (WTO), economic communities, and individual country regulations facilitate and limit a firm's opportunities for globalization.

Established by the General Agreement on Tariffs and Trade (GATT) in 1984, the World Trade Organization with its 161 members seeks to create a single open world market where trade flows “smoothly, predictably and freely as possible.” Some governments, however, adopt policies of protectionism with rules designed to give home companies an advantage. Such policies may include trade quotas, embargoes, or tariffs that increase the costs of foreign goods. Many countries have banded together to form economic communities to promote free trade.

Key Terms

General Agreement on Tariffs and Trade (GATT), p. 35

World Trade Organization (WTO), p. 35

World Bank, p. 35

International Monetary Fund (IMF), p. 35

foreign exchange rate (forex rate), p. 36

balance of payments, p. 36

protectionism, p. 36

import quotas, p. 36

embargo, p. 36

tariffs, p. 36

economic communities, p. 36

2.3 Objective Summary (pp. 37–48)

Understand how factors in a firm's external business environment influence marketing strategies and outcomes in both domestic and global markets.

The economic environment refers to the economic health of a country that may be gauged by its gross domestic product (GDP), its economic infrastructure, level of economic development, and stage in the business cycle. Marketers use competitive intelligence to examine brand, product, and discretionary income competition in the microenvironment. They also consider the structure of the industry in the macroenvironment. A country's political and legal environment includes laws and regulations that affect business. Marketers must understand any local political constraints, that is, the prospects for nationalization or expropriation of foreign holdings, regulations such as local content rules, and labor and human rights regulations. Because technology can affect every aspect of marketing, marketers must be knowledgeable about technological changes, often monitoring government and private research findings. Marketers also examine a country's sociocultural environment, including demographics, values, social norms and customs, language, and ethnocentricity. The ethical environment in some countries can cause problems for marketers if they do not understand the differences in the ethical perspective on such things such as honesty. In many least developed and developing countries, corruption is a major stumbling block for Western businesses. Bribery and extortion present ethical dilemmas for U.S. companies who must abide by the Foreign Corrupt Practices Act of 1977 (FCPA).

Key Terms

least developed country (LDC), p. 37

gross domestic product (GDP), p. 38

economic infrastructure, p. 40

level of economic development, p. 40

standard of living, p. 40

developing countries, p. 40

bottom of the pyramid (BOP), p. 40

sachet, p. 40
 BRICS countries, p. 40
 developed countries, p. 41
 Group of 7 (G7), p. 41
 business cycle, p. 41
 competitive intelligence (CI), p. 41
 discretionary income, p. 42
 product competition, p. 42
 brand competition, p. 42
 monopoly, p. 42
 oligopoly, p. 42
 monopolistic competition, p. 42
 perfect competition, p. 43
 drones, p. 43
 unmanned aerial vehicles (UAVs), p. 43
 patent, p. 43
 nationalization, p. 45
 expropriation, p. 45
 local content rules, p. 45
 U.S. Generalized System of Preferences (GSP), p. 45
 demographics, p. 46
 cultural values, p. 46
 collectivist cultures, p. 47
 individualist cultures, p. 47
 social norms, p. 47
 consumer ethnocentrism, p. 48

2.4 Objective Summary (pp. 48–53)

Explain some of the strategies and tactics that a firm can use to enter global markets.

Different foreign-market-entry strategies represent varying levels of commitment for a firm. Exporting of goods entails little commitment but allows little control over how products are sold. Contractual agreements such as licensing or franchising allow greater control. With strategic alliances through joint ventures, commitment increases. Finally, the firm can choose to invest directly by buying an existing company or starting a foreign subsidiary in the host country. Firms that operate in two or more countries can choose to standardize their marketing strategies by using the same approach in all countries or to localize by adopting different strategies for each market. The firm needs to decide whether to sell an existing product, change an existing product, or develop a new product. In many cases, the promotional strategy, the pricing strategy, the place/distribution strategy, and the product itself must be tailored to fit the needs of consumers in another country.

Key Terms

export merchants, p. 49
 licensing agreement, p. 49
 franchising, p. 49

strategic alliance, p. 50
 joint venture, p. 50
 straight extension strategy, p. 51
 product adaptation strategy, p. 51
 product invention strategy, p. 52
 backward invention, p. 52
 free trade zones, p. 52
 gray market goods, p. 52
 dumping, p. 53

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2.5 Objective Summary (pp. 53–57)

Understand the importance of ethical marketing practices.

Ethical business practices are important in order for the firm to do the best for all stakeholders and to avoid the consequences of low ethical standards for the firm and to society. Differing philosophies of ethics provide different results in ethical decision making. Business ethics, values that guide the firm, are often used to develop a business code of ethics. Although most marketers do make ethical decisions, there are examples of actions that justify some of the criticisms of marketing. In many countries, bribery and extortion are an accepted way of doing business.

Key Terms

utilitarian approach, p. 54
 rights approach, p. 54
 fairness or justice approach, p. 54
 common good approach, p. 54
 virtue approach, p. 54
 ethical relativism, p. 54
 business ethics, p. 54
 code of ethics, p. 55
 bribery, p. 56
 extortion, p. 56

2.6 Objective Summary (pp. 57–59)

Explain the role of sustainability in marketing planning.

With growing world populations and increasing demand for products, sustainable business practices are necessary for life in the future. Many firms practice sustainability when they develop target marketing, product, price, place/distribution, and promotion strategies designed to protect the environment and the future of our communities.

Key Terms

green customers, p. 57
 fair trade suppliers, p. 59
 locavorism, p. 59
 sustainability metrics, p. 59

Chapter Questions and Activities

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Concepts: Test Your Knowledge

- 2-1. Describe the market conditions that influence a firm's decision to enter foreign markets.
- 2-2. Explain what *world trade* means. What is the role of the WTO and economic communities in encouraging free trade? What is the role of the World Bank and the International Monetary Fund in global trade? What is protectionism? Explain import quotas, embargoes, and tariffs.
- 2-3. Explain how GDP, the categories of economic development, and the business cycle influence marketers' decisions in entering global markets. What are the BRICS countries? What is the Group of Seven (G7)?
- 2-4. Explain the types of competition marketers face: discretionary income competition, product competition, and brand competition.
- 2-5. What are a monopoly, an oligopoly, monopolistic competition, and pure competition?
- 2-6. What aspects of the political and legal environment influence a firm's decision to enter a foreign market? Why are human rights issues important to firms in their decisions to enter global markets?
- 2-7. What do marketers mean when they refer to technological and sociocultural environments? Why do they need to understand these environments in a global marketplace?
- 2-8. What is ethnocentrism?
- 2-9. Describe the four globalization strategies representing different levels of involvement for a firm: exporting, contractual agreements, strategic alliances, and direct investment.
- 2-10. What are the arguments for standardization of marketing strategies in the global marketplace? What are the arguments for localization? What are some ways a firm can standardize or localize its marketing mix?
- 2-11. Describe the utilitarianism, rights, fairness or justice, common good, and virtue approaches to ethical decision making. What is ethical relativism?
- 2-12. Why is it increasingly important that firms engage in sustainability? What are some ways that strategies for the Four Ps can include sustainability?

Activities: Apply What You've Learned

- 2-13. *In Class, 10–25 Minutes for Teams* Using the data in Table 2.2, select two countries that are substantively dissimilar. Then select one of the products below. Use the data for the two countries to develop arguments why each of the two countries would and would not be a good opportunity for expansion of the market for your product.
 1. New and more environmentally friendly method for heating and cooling houses.
 2. A small automobile that runs on electricity.

3. Barbie and Ken dolls and accessories
4. A low-priced, easy to use, sewing machine that does not require electricity.

2-14. *Creative Homework/Short Project* With several members of your class, assume you are in the marketing department for a low end retail store chain; you might think of a chain similar to Dollar General. Your firm has decided to begin an expansion into the global market. Currently you are considering building stores in France, Ecuador, Brazil and Australia. Gather information about these countries using the CIA Factbook available online and other sources. Using the data you have about each country, develop ideas on the pros and cons of entering each country. Which country do you feel is best? Present your findings to your class.

2-15. *For Further Research (Individual)* Consider the six different ethical philosophies described in the chapter. Apply these six philosophies to one of the following ethical dilemmas. What would be the most ethical decision for each? Explain why you think so. Which would you be most likely to follow?

Decisions:

1. You see a fellow student cheating. Should you ignore what you saw, report it, or do something else?
2. You are the president of a school club, which gives you access to the club's money. You need to buy a new tire for your car but you won't have enough money for a week. You are considering borrowing the money from the club and paying it back in a week.
3. You have been assigned to a class project team. In a different class, you have been on a team with one of the members of your current team, and you know he or she refuses to do any work but expects others on the team to help him or her out. What are your options, and what should you do?

2-16. *In Class, 10–25 Minutes for Teams* Assume you are the director of marketing for a U.S. firm that produces one of the products listed below. Your firm is considering going after the Indian market and is faced with the decision of the best entry strategy. Should your firm simply export their products, or would a strategic alliance, licensing, a joint venture, or direct investment be a better choice? Develop your ideas for a best entry strategy. Be specific in your recommendations for a strategy, how to implement the strategy, and your reasons for your recommendations.

Products:

1. Tablets (similar to the iPad) targeting the consumer market
2. Expansion of your discount retail store chain
3. Short-term (from an hour up) auto rentals

2-17. *Creative Homework/Short Project* Consumer ethnocentrism is the tendency for individuals to prefer products from one's own culture. Sometimes people think products made at home are better than imported goods. Develop a small study to find out what students

at your university think about products made at home and abroad. Develop a survey that asks other students to evaluate 10 or more products (not brands) that are imported versus made at home. You might wish to ask if they feel the domestic or imported products are superior in quality and which they would purchase. Prepare a report on your study for your class.

- 2-18.** *In Class, 10–25 Minutes for Teams* Some people argue that our environment is not in jeopardy and that sustainability efforts will only make products more expensive. Plan a debate in your class with two teams, one arguing for sustainability efforts and one against.
- 2-19.** *For Further Research (Individual)* You are planning a trip to another country for your summer vacation. You are considering traveling to Greece, to Peru, to England and to Egypt. Determine the current forex rate for all four countries as well as the average forex over the past five years for each. Based solely on the information you collect about forex rates, explain where you would go and why.
- 2-20.** *For Further Research (Groups)* You are part of an up-and-coming coffeehouse chain in the United States, and you know that you need to participate in competitive intelligence activities to learn more about your competitors. Using the Internet, collect at least five distinct pieces of information about either Starbucks or Dunkin' Donuts that will enable you to improve your marketing strategy.

Concepts: Apply Marketing Metrics

Many Western firms see their futures in the growing populations of developing countries, where 8 out of 10 consumers now live. Consumers from the BRICS countries—Brazil, Russia, India, China, and South Africa—offer new opportunities for firms because growing numbers are accumulating significant amounts of disposable income. Firms such as worldwide cosmetics giant Beiersdorf, the producer of Nivea products, are adapting their products and their marketing activities to meet the needs of these populations. Often this means selling miniature or even single-use sachet packages of shampoo, dishwashing detergent, or fabric softener for only a few cents. The huge Swiss company Nestlé sells shrimp-flavored instant soup cubes for two cents each in Ghana; similarly the financial company Allianz, in a joint program with CARE, sells microinsurance for five cents a month to the very poor in India.

How do these firms measure their success in these new markets? Firms in developed countries normally use standard marketing metrics such as customer awareness, customer satisfaction, increases in market share or profits, or return on customer investment or return on marketing investment. But these metrics are based on standard market-entry strategies with full-size products and correspondingly typical pricing and promotional strategies—very different from the approach just described. Hence, these metrics are likely not too useful for the new markets in the developing world, where many millions of people buy streamlined versions of a firm's products at a fraction of their usual price.

- 2-22.** How would the success of this approach be better measured—that is, what metrics would be more useful than the typical metrics used in developed countries? Be creative and develop a list of several possible metrics that firms might use to measure their success in these new developing markets. *Hint:* Keep closely in mind what firms hope to accomplish by increasing their presence and sales in those markets.

Choices: What Do You Think?

- 2-23.** *Critical thinking and Ethics* Assume you are the CMO for a firm that is a major producer of chocolate candy and baking chocolate. The bulk of your chocolate products are sold in the United States and Europe. For many years, your firm has purchased cocoa beans (from which chocolate is made) from Country A. Country A produces 30 percent of the world's chocolate but recent reports of child labor have concerned many country leaders and consumers. On some farms, children are made to work as much as 100 hours a week and are physically abused. Furthermore, some receive no education whatsoever. You are considering whether or not your company should change suppliers and buy cocoa from Country B. Country B is the leader in ethically produced cocoa. Cocoa is produced in an environmentally sustainable manner and the country is the world leader of "fair-trade certified" cocoa production. Unfortunately, the price of cocoa from Country B is nearly twice that of Country A. This means you would have to significantly increase the price of your products which you expect to negatively affect the firm's sales. This, in turn would likely lead to closing some company facilities and laying off workers. On the other hand, consumers in your markets are increasingly concerned about human rights abuses and seek to buy fair trade products. Develop your thoughts on the following:
- The positive and negative outcomes (in addition to those already discussed) of continuing to purchase cocoa from Country A.
 - The positive and negative outcomes (other than those already discussed) of changing suppliers and purchasing cocoa from Country B (in addition to those already discussed).
 - Which country would you choose using the Utilitarian approach to decision making? Why?
 - Which country would you choose using the Rights approach to decision making? Why?
 - Which country would you personally choose? Why?
- 2-24.** *Critical Thinking* What role has technology played in the globalization of businesses? Has technology leveled the economic playing field, or has it merely increased the distance between the "haves" and the "have-nots"? Give at least one example of each and explain your position.
- 2-25.** *Critical Thinking* LDCs are not required by the WTO to meet the same environment standards as developed countries. Do you think LDCs should be excluded from WTO standards for pollution and other environmental protection issues? Why or why not?

- 2-26. Critical Thinking** Some countries have been critical of the export of American culture via movies, television, music and many American consumer goods by U.S. businesses. What about American culture might be objectionable? Can you think of some products that U.S. marketers export that can be objectionable to some foreign markets? What is the solution to the problem?
- 2-27. Critical Thinking** Some of the U.S. population supports free trade, whereas others are unhappy, even angry, that the government has reduced regulations on imports of such products as textiles and furniture, causing factories to shut down and employees to lose their jobs. They feel that the U.S. government should legislate greater regulation of imported goods to give American companies an advantage or at least to lessen the advantage that companies in other countries receive from their government. What do you think? How do you justify your answer?
- 2-28. Critical Thinking** In 1999, several single European nations banded together to form the European Union and converted their individual monetary systems over to the euro. Do you believe there will ever be other economic communities that would follow this path? Explain your reasoning and, if necessary, provide some possible examples. What about the possibility of a single world currency? Could this happen? Why or why not?
- 2-29. Ethics** Ethical relativism suggests that what is ethical in one culture may not be considered ethical in another. What should the attitude of businesses be when differences occur? Should businesses follow the ethical values and practices of their own country or those of the host country? What should governments do about this if anything? What is the role of the WTO?
- 2-30. Ethics Review** the *AMA Code of Ethical Norms and Values for Marketers*, available on the AMA website, <https://www.ama.org/AboutAMA/Pages/Statement>

-of-Ethics.aspx. Which of the areas represented within the document do you anticipate are the most challenging for marketers to consistently follow? What makes these issues particularly troublesome? Do you think marketing in general does a good job adhering to the AMA Code? Provide specific evidence from your knowledge and experience to support your position.

Miniproject: Learn by Doing

The purpose of this miniproject is to gain experience in understanding what it takes to move a product that is successful in its home market into a global market in which it will continue to be successful. Assume that you are the director of marketing for a firm that produces its own high-end brands of makeup, skin care, and hair care products for both men and women. The products have been endorsed by a number of male and female musicians who are highly popular with young people. The products are sold only in the company's own retail outlets.

- 2-31.** Describe your local competitive advantage and why you believe this competitive advantage will serve you globally.
- 2-32.** Determine which global market(s) is or are most attractive for your products. Will you target a single country or an economic community? Describe your reasoning.
- 2-33.** Decide which market-entry strategy you will pursue. Again, explain your reasoning.
- 2-34.** Describe your marketing mix strategy:
- How might you need to adapt your product?
 - What other product decisions do you need to make?
 - How will you promote your products?
 - How will you price your products?
 - What place/distribution decisions must you consider?

Prepare a short presentation to share with your class.

Marketing in Action Case

Real Choices at Ford

Ford Motor Company has committed to investing \$1.6 billion to construct a small car plant in the San Luis Potosi State in Mexico. This will result in the creation of more than 2,800 jobs in the country. The Center for Automotive Research states that U.S. automotive labor costs average around \$30 per hour and are substantially higher than those in Mexico which average around \$5 per hour. This means that moving production to Mexico will allow Ford to lower its cost for small cars and make Ford more competitive in the global auto marketplace. The move will, in turn, allow Ford to reallocate its U.S. facilities toward larger vehicles with higher profit margins, like SUVs and F-Series trucks. Furthermore, Mexico has the necessary transportation infrastructure to efficiently export the cars back to the U.S. and other markets.

Mexico has been a part of Ford's manufacturing history since 1925 when the company became the first automobile manufacturer in the country. According to Gabriel Lopez, president and CEO of Ford of Mexico, "Ford of Mexico is the fourth largest producer of vehicles, the fourth largest producer of engines and the second country in the global auto parts supply

company facilities." Over the past 90 years Ford has provided more than \$8 billion to build and develop its production capabilities in the country. Currently, Ford has two assembly plants, two stamping plants, and an engine plant in Mexico. Increasing production output in the country is consistent with Ford's long-term manufacturing plans.

The additional investment in Mexico is not without its critics. The issue of jobs leaving the country has always been a part of political debate in Washington, D.C. The announcement of Ford's plans was made during the most recent presidential campaign and created dissent among the candidates. One candidate called for increased tariffs and penalties for U.S. firms, like Ford, that choose to relocate manufacturing to foreign markets to lower costs. Ford has reacted with a vigorous defense of its business practices. As per CEO Mark Fields, "more than 80 percent of our North American investment annually is in the U.S., and 97 percent of our North American engineering is conducted in the U.S."

Dennis Williams, President of the United Auto Workers (UAW) union, is another voice of dissent to the move.

He states that as production moves outside of the U.S. to low-wage countries, American workers suffer at home. This is a serious issue for the company, but it is projected that UAW members will see their wages grow domestically. This will make Ford's move to Mexico even more advantageous for the company. Moreover, top management at the company explained that over the next few years, Ford will spend more than \$9 billion in the U.S., which is expected to create or maintain 8,500 jobs.

Increasing its presence in Mexico is not the only initiative Ford is implementing. As a part of its strategic "One Ford" plan the company has allocated billions of dollars to expand its global production capabilities in places like Spain, Germany, China, the Middle East, and Africa. While Ford improves its financial outlook, how will it deal with the negative attention generated by moving jobs outside the United States? Is it possible for the company to increase its profitability and reduce

its dependence on foreign production? In the current political climate should the company rethink its plans?

You Make the Call

- 2-35.** What is the decision facing Ford?
- 2-36.** What factors are important in understanding this decision situation?
- 2-37.** What are the alternatives?
- 2-38.** What decision(s) do you recommend?
- 2-39.** What are some ways to implement your recommendation?

Based on: Daniel Miller, "Ford Motor Company's Move to Mexico Isn't a New Development," *The Motley Fool* (April 8, 2016), <http://www.fool.com/investing/general/2016/04/08/ford-motor-companys-move-to-mexico-isnt-a-new-deve.aspx> (accessed April 11, 2016); Brent Snively, "6 Reasons Ford Picked Mexico for a New Plant," *Detroit Free Press* (April 7, 2016), <http://www.freep.com/story/money/cars/ford/2016/04/06/6-reasons-ford-mexico-new-plant/82693218/> (accessed April 11, 2016); Ana Laura Alvarado Olivares, "Celebrating 90 Years of Great Stories in Mexico," *Ford.com* (July 20, 2015), <http://www.at.ford.com/news/cn/Pages/Celebrating%2090%20Years%20of%20Great%20Stories%20in%20Mexico.aspx> (accessed April 13, 2016).

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- 2-40.** *Creative Homework/Short Project.* As a marketing manager, you must consider whether to delay the production and introduction of a new automobile because of a small problem with the door locks; they could become nonfunctional when temperatures drop very low. Using (1) the utilitarian approach, (2) the rights approach, and (3) the common good approach, what would the different decisions be?
- 2-41.** *Ethics.* Some companies have been criticized for moving their manufacturing to other countries where laws protecting the environment are more lenient and goods can be produced more cheaply because the firms do not have to invest in ways to protect the environment. What do you think of this practice? What can governments and/or consumers do to prevent such actions?

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