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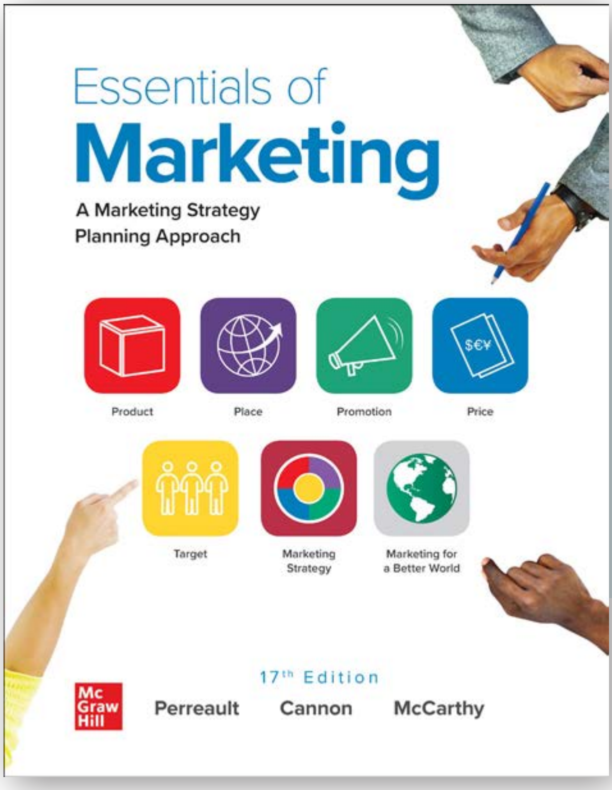
Essentials of Marketing, 17th edition

Perreault | Cannon | McCarthy



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Message from the Authors

Hello and Welcome to this Sneak Peek of Essentials of Marketing 17e!

Thank you for your loyalty to our Principles of Marketing franchise! Dating back to Jerry McCarthy's ground-breaking categorization of the **4Ps of Marketing**, our practical, research-based product continues to emphasize a ***marketing strategy planning*** approach to the introductory marketing course.

There are several big changes to this edition of **Essentials of Marketing** and hundreds of smaller ones. We recognize the many dramatic changes in the market environment and marketing strategy and are careful to reflect those in our teaching and learning package. Each revision of **Essentials of Marketing** has a few basic themes that we incorporate based on the needs of the market and reviewer feedback. In *17e*, we have incoporated these themes (1) **NEW** marketing for a better world (**#M4BW**), (2) marketing analytics, (3) active learning, and (4) currency. Here is a quick overview:

Marketing for a better world #M4BW. Brand new to this edition—we highlight the best of marketing, where marketing practices meet target customer needs and make the world a better place. When we look around, we see so many businesses and nonprofit organizations finding ways to make a better world through their marketing efforts. We also recognize that many customers want to support businesses that behave this way. We decided to emphasize those efforts; you will see these examples in our "green boxes" and #M4BW across every chapter.

Marketing analytics. The last couple of editions of Essentials of Marketing have featured growing coverage of big data and marketing analytics. As always, we let you decide how much you want to emphasize marketing analytics—with boxed exercises, in-class activities, and *Connect exercises* in each chapter.

Currency. We know students want to read about current examples, companies and brands. In addition, with technology and customer behavior evolving so quickly, this revision includes hundreds of changes in order to keep pace.

Active learning. Connect and SmartBook® 2.0 offer your students better opportunities to master and apply the concepts of marketing. In addition, we provide you, the instructor, a wealth of resources to use in the classroom including our unique *Flip Your Marketing Class supplement* and our proven In-Class activities.

We hope you will take a close look at our dynamic **Essentials of Marketing 17e** package, which also includes assignable, auto-gradable **Marketing Analytics** exercises for every chapter, both **mini and full marketing simulations**, assignable case analysis exercises and our new **Marketing Video Library**. For students, we now offer SmartBook 2.0, our improved adaptive reading experience optimized for mobile, and a brand-new eBook, offering flexibility and better accessibility. We are grateful for your loyalty and consideration and welcome your continued feedback.

Very best regards,

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Essentials of Marketing 17th edition

Perreault | Cannon | McCarthy

Table of Contents

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Chapter by Chapter Changes

Chapter 1 Refreshed with new and updated examples. New discussion and introduction of the idea of marketing for a better world and the associated #M4BW.

Chapter 2 An updated opener and refreshed and more current examples throughout the chapter. We added a new Ethical Dilemma. Revised and reorganized coverage of customer lifetime value and customer equity. Added examples of marketing for a better world.

Chapter 3 Updates for currency throughout the chapter. Minor revisions to section on objectives. Major changes throughout the technology section, including the addition of machine learning and removing the ethics coverage from this section. Many changes resulting in more streamlined coverage of the legal environment. Shortened and combined what were three major sections at the end of this chapter. Added examples of marketing for a better world.

Chapter 4 Updates for currency throughout this chapter with new examples. Simplified Exhibit 4–3 and coverage of segmentation. New Exhibit 4–11 provides a detailed explanation of the dynamic behavioral segmentation approach that is being used for online segmentation. Added examples of marketing for a better world.

Chapter 5 Updates for currency across the chapter and new examples. Added examples of marketing for a better world.

Chapter 6 Updates for currency and refreshed examples. New Ethical Dilemma, revisions to Exhibits 6–3, and 6–7. New exhibit added to give students more examples of different types of buying processes. Added examples of marketing for a better world.

Chapter 7 Many updates and new examples as marketing research continues to evolve—drawingon new sources of data and new types of marketing analytics. Major revisions to coverage of information systems and two new exhibits designed to reinforce important ideas. Deleted the section on international marketing research, with relevant content integrated elsewhere in the chapter—and dropped the related learning objective. Added examples of marketing for a better world.

Chapter 8 Updates throughout this chapter. New key term product line length. New exhibit to better show differences between services and goods. Significantly reduced coverage of warranties— previously had its own learning objective and major section—now briefly covered elsewhere in chapter. Added examples of marketing for a better world.

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Chapter by Chapter Changes Continued

Chapter 9 Updated for currency. New key terms include continuous innovation, dynamically continuous innovation, and discontinuous innovation. New Ethical Dilemma. Updated coverage of managing service quality with attention to robots replacing service workers. Added examples of marketing for a better world.

Chapter 10 Updated for currency. Major revisions to coverage of selling direct versus indirect—reorganized and new content added. Added two new key terms: horizontal channel conflict and vertical channel conflict. Moved and updated coverage of multichannel shopping and omnichannel from Chapter 12 to this chapter as it felt like a better fit. Updated reverse channel coverage. Added examples of marketing for a better world.

Chapter 11 Updated for currency. Added new coverage of food delivery and service level. Major new section at the end of the chapter, "Disaster Relief—Logistics Saves Lives," provides an example of marketing for a better world but also a nice integration and review of key concepts from this chapter. Added examples of marketing for a better world.

Chapter 12 We always have a lot of revisions in our coverage of retailing—and this edition is no different. To remain current, every edition requires significant rewriting, especially in our section on retailing and the Internet. Other changes include minor updates to Exhibits 12–3, 12–4, and 12–6 and moving coverage of multichannel shopping and omnichannel to Chapter 10. Added examples of marketing for a better world.

Chapter 13 This chapter always has a lot of new examples—students notice dated examples and we aim to eliminate them. Major revision to the section "How Typical Promotion Plans Are Blended and Integrated" that includes a better explanation of this process and new content. Added examples of marketing for a better world.

Chapter 14 Updated for currency. Major rewrite and coverage of customer service. Also major updates and edits to "Information Technology Provides Tools to Do the Job." Added examples of marketing for a better world.

Chapter 15 Because it reflects evolutionary changes in advertising, this chapter always has major changes with each edition. Major updates include (1) updates to the chapter opening case on Domino's; (2) new graphic that really demonstrates the changing advertising media landscape (see Exhibit 15–6); (3) deleted the separate section on advertising agencies, moving some necessary coverage elsewhere in the chapter, but really cutting back this content; (4) many revisions to the "Digital and Mobile Advertising" section; (5) new key term and coverage of influencers—including legal issues; (6) revision and updates to sales promotion; and (7) new coverage of legal issues for sales promotion. Added examples of marketing for a better world.

Chapter by Chapter Changes Continued

Chapter 16 This chapter is another that requires constant updating with all the changes going on with earned, owned, and social media. There were lots of small changes and updates throughout the chapter, including updates to Exhibits 16–6 and 16–7. Added examples of marketing for a better world.

Chapter 17 Updated for currency as well as major changes that include (1) two new key terms, benefit corporation and B-Corp Certification, (2) new Ethical Dilemma, (3) additional coverage on price level policies through the product life cycle, (4) major reorganization including new topics under "Pricing Policies for Price Reductions, Financing, and Transportation," which included (5) streamlined coverage of geographic pricing where we eliminated key terms and coverage of FOB, zone pricing, uniform delivered pricing, and freight absorption pricing. Added examples of marketing for a better world.

Chapter 18 Updated for currency. New exhibit and better explanation of price sensitivity. Added examples of marketing for a better world.

Chapter 19 Modest updates for currency. Added examples of marketing for a better world.

Bonus Chapter 1 The previous edition included (1) adding a new learning objective and section "Marketing Metrics and Analytics Can Guide Marketing Strategy Planning" and (2) What's Next? Making better decisions in a world of data analytics. This edition provides updates for currency and new examples of marketing for a better world.

Bonus Chapter 2 Updates for this edition include new examples for currency and examples of marketing for a better world.

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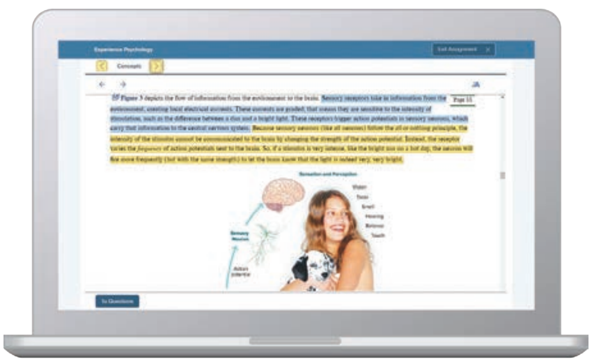

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Asset Alignment with Bloom's Taxonomy

Principles of Marketing

We Take Students Higher

As a learning science company, we create content that supports higher order thinking skills. Within McGraw-Hill Connect®, we tag content accordingly so you can filter your search, assign it, and receive reporting on it. These content asset types can be associated with one or more levels of Bloom's.

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Higher Order Thinking Skills

	SmartBook® 2.0	iSeeit! Videos	Video Cases/Case Analyses	Marketing Analytics	Marketing Plan Prep Exercises	ABAs/Marketing Mini Sims	Writing Assignment Plus
CREATE							✓
EVALUATE						✓	✓
ANALYZE			✓	✓	✓	✓	✓
APPLY		✓	✓	✓	✓	✓	✓
UNDERSTAND	✓	✓	✓	✓	✓	✓	✓
REMEMBER	✓	✓	✓	✓	✓	✓	✓

Lower Order Thinking Skills

SmartBook 2.0

Smartbook 2.0 personalizes learning to individual student needs; continually adapting to pinpoint knowledge gaps and focus learning on concepts requiring additional study.

iSeeit! Videos

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Video Cases & Case Analyses

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Marketing Analytics Exercises

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

Marketing Plan Prep Exercises

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2

CHAPTER TWO

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Marketing Strategy Planning

There was a time when it didn't seem an exaggeration for Barnum & Bailey's ads to tout the circus as "The Greatest Show on Earth." For 100 years, circuses brought excitement and family entertainment to towns all over the country. Parents hardly noticed the hard benches they sat on as they watched their kids cheer for the acrobats, clowns, and animal acts. But by the 1980s, the popularity of traditional circuses was in decline; many went out of business.

You can imagine why this sad state of affairs would be a concern for Guy Laliberté—a stilt walker, accordion player, and fire-eater—and others in his band of performers. But instead of bemoaning the demise of the circus, they saw an opportunity for a new kind of entertainment—and their idea gave birth to Cirque du Soleil.

Their new style of circus still traveled to audiences and set up a "big top" tent, but costly and controversial animal acts were eliminated. Instead, the entertainment focused on an innovative combination of acrobatics, music, and theater. This more sophisticated offering appealed to adults. Importantly, adults were willing to pay more for tickets when the show targeted them and not just kids—especially when the traditional circus benches were replaced with more comfortable seats.

Cirque du Soleil quickly struck a chord with audiences, and soon the producers were developing new shows and expanding tours to reach new markets. Laliberté recognized and built on this breakthrough opportunity. At any one time, about a dozen different Cirque du Soleil shows travel across Europe, Asia, Australia, and North and South America. Each show performs in a host city from two weeks to three months. Ten other Cirque shows have permanent homes and target tourists visiting New York City; Las Vegas, Nevada; Orlando, Florida; and Riviera Maya, Mexico. Each of the shows has a unique theme. For example, *OVO* looks at the world of insects, *Messi10* is loosely based on the life of Argentinian soccer star Lionel Messi, and *Bazzar* presents an "eclectic lab of infinite creativity."

When considering new shows, Cirque evaluates each idea on its creativity, uniqueness, and likelihood of becoming a blockbuster. New shows can take more than five years and $100 million to develop. Cirque anticipates recouping these development costs over each show's planned 10-year run. Some shows pay back even quicker. *Michael Jackson THE IMMORTAL World Tour* was a big hit—selling more than $140 million in tickets in its first full year on the road. That show's successes led to the development of *Michael Jackson ONE*, now based in Las Vegas.

As all of this suggests, Cirque du Soleil's marketing managers constantly evaluate new opportunities. Some opportunities, like its theme park in Nuevo Vallarta, Mexico, diversify Cirque's product line. A new product designed to attract customers who probably wouldn't go to a traditional performance, the theme park offers an immersive experience where visitors are literally part of the show. Not every opportunity makes it to market, however. Cirque thought its own women's clothing line could appeal to its biggest fans, but this idea was later screened out.

Cirque also reaches new customers through television specials, DVDs, and online streaming. These small-screen shows generate additional revenue while giving customers a taste of Cirque du Soleil—whetting their appetite for a live show.

Once customers see a live Cirque du Soleil show, they want to see more. So, Cirque advertises to encourage customers to see that first show. Ads in airline magazines target travelers heading to cities with permanent shows; traveling shows are heavily advertised in local media. Publicity and word-of-mouth are also important.

Cirque du Soleil knows customers who love the shows will come back again and again. Cirque's marketing managers often use digital tools—both because they are effective with their target market and because they can more easily track and analyze the results. For example, Cirque knows that its biggest fans will download an app to stay informed; the app also tells Cirque when those customers are in Las Vegas. Then Cirque knows to remind those customers to attend a show. Cirque collects data from its social media sites, including Instagram, YouTube, and Facebook. By analyzing these data, Cirque learned that its biggest fans wanted more backstage stories about performers and makeup specialists. So, it created video stories and posted them on social media where fans liked and shared them with friends.

Cirque offers special packages to different groups of customers. For example, it offers lower-price "Family Packs" and premium packages for customers wanting a post-show meet and greet with the performers.

Cirque du Soleil's managers take social responsibility seriously. Within just a few years of its founding, the company adopted policies for community social and cultural action. In its 2017–2020 Corporate Social Strategy, Cirque's CEO expresses pride that the company "uses its creative powers to make the world better." One part of that strategy focuses on making a difference in the lives of young people and encouraging them to "change the world." To help achieve that goal, Cirque du Soleil donates 500 tickets to at-risk youth in each city it visits.

Although Barnum & Bailey's "Greatest Show on Earth" has folded its tent, Cirque du Soleil's success inspired new competitors with similar entertainment fare. The lumberjack-themed Cirque Alfonse and its chainsaw jugglers tour across multiple continents. A former Cirque director started the aquatic-themed *Le Rêve* in Las Vegas. The well-known Cirque du Soleil brand name still gives the troupe a competitive advantage when it introduces new shows. This carefully crafted marketing mix generates ticket sales totaling about a billion dollars a year.[1]

LEARNING OBJECTIVES

Marketing managers at Cirque du Soleil make many decisions as they develop marketing strategies. Making good marketing strategy decisions is never easy, yet knowing what basic decision areas to consider helps you plan a more successful strategy. This chapter will get you started by giving you a framework for thinking about marketing strategy planning—which is what the rest of this book is all about.

When you finish this chapter, you should be able to

1. understand what a marketing manager does.
2. know what marketing strategy planning is—and why it is the focus of this book.
3. understand target marketing.
4. be familiar with the Four Ps in a marketing mix.
5. know the difference between a marketing strategy, a marketing plan, and a marketing program.
6. understand what customer lifetime value and customer equity are and why marketing strategy planners seek to increase them.
7. be familiar with the text's framework for marketing strategy planning.
8. know four broad types of marketing opportunities that help in identifying new strategies.
9. understand why strategies for opportunities in international markets should be considered.
10. understand the important new terms (shown in bold red).

The Management Job in Marketing

LO 2.1

In Chapter 1 you learned about the marketing concept—a philosophy to guide the whole firm toward satisfying customers at a profit. From the Cirque du Soleil case, it's clear that marketing decisions are very important to a firm's success. Let's look more closely at the marketing management process.

The **marketing management process** is the process of (1) *planning* marketing activities, (2) directing the *implementation* of the plans, and (3) *controlling* the plans. Planning, implementation, and control are basic jobs of all managers—but here we will emphasize what they mean to marketing managers.

Exhibit 2-1 shows the relationships among the three jobs in the marketing management process. The jobs are all connected to show that the marketing management process is continuous. In the planning job, managers set guidelines for the implementing job and specify expected results. They use these expected results in the control job to determine if everything has worked out as planned. The link from the control job to the

Exhibit 2-1 The Marketing Management Process

planning job is especially important. This feedback often leads to changes in the plans or to new plans.

Strategic management planning concerns the whole firm

The job of planning strategies to guide a whole company is called **strategic (management) planning**—the managerial process of developing and maintaining a match between an organization's resources and its market opportunities. This is a top-management job. It includes planning not only for marketing but also for production, finance, human resources, and other areas.

Although marketing strategies are not whole-company plans, company plans should be market-oriented. And the marketing plan often sets the tone and direction for the whole company. Thus, we will use *strategy planning* and *marketing strategy planning* to mean the same thing.[2]

What Is a Marketing Strategy?

LO 2.2

Marketing strategy planning means finding attractive opportunities and developing profitable marketing strategies. But what is a "marketing strategy"? We have used these words rather casually so far. Now let's see what they really mean.

A **marketing strategy** specifies a target market and a related marketing mix. It is a big picture of what a firm will do in some market. Two interrelated parts are needed:

1. A **target market**—a fairly homogeneous (similar) group of customers to whom a company wishes to appeal.
2. A **marketing mix**—the controllable variables the company puts together to satisfy this target group.

Exhibit 2-2 A Marketing Strategy

The importance of target customers in this process can be seen in Exhibit 2–2, where the target market is at the center of the diagram. The target market is surrounded by the controllable variables that we call the "marketing mix." A typical

urbanbuzz/Shutterstock

marketing mix includes some product, offered at a price, with some promotion to tell potential customers about the product, and a way to reach the customer's place.

The marketing strategy for Herbal Essences hair care products aims at a specific group of target customers: young women in their teens and early 20s. The products include various shampoos, conditioners, gels, and hairspray for different types of hair. The product names and brightly colored packaging grab customers' attention. For example, Body Envy (in orange bottles) adds body to flat hair, and Hello Hydration (in blue bottles) features a coconut fragrance and extra moisture. The curvy, nested shampoo and conditioner bottles subtly encourage customers to buy the products together. By seeking eye-level placement at Target and Walmart, Herbal Essences locates its products where most of its target customers shop for hair care essentials. The brand's print, television, and online advertising incorporate a mythical quality that supports the products' organic origins. Herbal Essences' home page (www.herbalessences.com) includes hundreds of customer ratings and reviews, links to a Facebook Fan page (with more than 1 million fans), a Twitter feed, and a YouTube channel. The shampoo and conditioner retail for \$3 to \$8 a bottle, with occasional dollar-off coupons to encourage new customer trial. Fast-growing sales suggest this marketing mix hits the bulls-eye for this target market.[3]

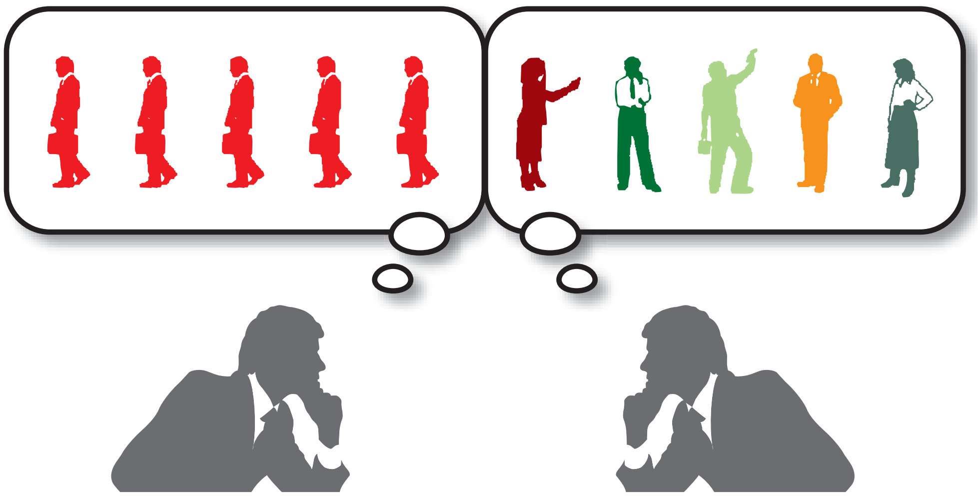
Selecting a Market-Oriented Strategy Is Target Marketing

LO 2.3

Target marketing is not mass marketing

A marketing strategy specifies some *particular* target customers. This approach is called "target marketing" to distinguish it from "mass marketing." **Target marketing** says that a marketing mix is tailored to fit some specific target customers. In contrast, **mass marketing**—the typical production-oriented approach—vaguely aims at "everyone" with the same marketing mix. Mass marketing assumes that everyone is the same—and it considers everyone to be a potential customer. It may help to think of target marketing as the "rifle approach" and mass marketing as the "shotgun approach." See Exhibit 2–3.

Exhibit 2-3 Production-Oriented and Marketing-Oriented Managers Have Different Views of the Market



Production-oriented manager sees everyone as basically similar and practices "mass marketing"

Marketing-oriented manager sees everyone as different and practices "target marketing"

A marketing mix does not need to appeal to all customers. Target marketers recognize that customer needs vary. They identify a target market to serve, and then create a marketing mix to match that market's needs. Whereas a $400 cooler is not for everyone, YETI identified customers (including people dedicated to fishing) that value a high-quality, durable, "indestructible" cooler "built for the wild."
Source: YETI

Mass marketers may do target marketing

Commonly used terms can be confusing here. The terms *mass marketing* and *mass marketers* do not mean the same thing. Far from it! *Mass marketing* means trying to sell to "everyone," as we explained earlier. *Mass marketers* such as Kraft Foods and Walmart aim at large but clearly defined target markets. The confusion with mass marketing occurs because their target markets usually are large and spread out.

Target marketing can mean big markets and profits

Target marketing is not limited to small market segments—only to fairly homogeneous ones. A very large market—even what is sometimes called the "mass market"—may be fairly homogeneous, and a target marketer will deliberately aim at it. For example, parents of young children are a large group that is homogeneous on many dimensions, including their attitudes about changing baby diapers. In the United States alone, this group spends more than $6 billion a year on disposable diapers—so it should be no surprise that it is a major target market for companies such as Kimberly-Clark (Huggies) and Procter & Gamble (Pampers).

The basic reason to focus on some specific target customers is so that you can develop a marketing mix that satisfies those customers' *specific* needs better than they are satisfied by some other firm. For example, E*TRADE uses a website (www.etrade.com) to target knowledgeable investors who want a convenient, low-cost way to buy and sell stocks online without a lot of advice (or pressure) from a salesperson.

Developing Marketing Mixes for Target Markets

LO 2.4

There are many marketing mix decisions

There are many possible ways to satisfy the needs of target customers. A product might have many different features. It could be sold directly to customers via the Internet, offered only in stores, or both. Customer service levels before or after the sale can be adjusted. The package, brand name, and warranty can be changed. Various advertising media—newspapers, magazines, cable, the Internet—may be used. The company can develop social media sites on Facebook, Snapchat, or Instagram. A company's own sales force or other sales specialists can be used. The price can be changed, discounts can be given, and so on. With so many possible variables, is there any way to help organize all these decisions and simplify the selection of marketing mixes? The answer is yes.

The "Four Ps" make up a marketing mix

It is useful to reduce all the variables in the marketing mix to four basic ones:

Product
Place
Promotion
Price

It helps to think of the four major parts of a marketing mix as the "***Four Ps.***"

Exhibit 2-4 A Marketing Strategy—Showing the Four Ps of a Marketing Mix

Customer is not part of the marketing mix

The customer—the target market—is shown surrounded by the Four Ps in Exhibit 2-4. Some students assume that the customer is part of the marketing mix—but this is not so. The customer should be the *target* of all marketing efforts. For example, many soft drink customers are concerned about how much sugar they consume—so Coke Zero Sugar targets customers who love the taste of Coke but don't want sugar.

Exhibit 2-5 shows some of the strategy decision variables organized by the Four Ps. These will be discussed in later chapters. For now, let's just describe each P briefly.

Product—the good or service for the target's needs

The Product area is concerned with developing the right "product" for the target market. This offering may involve a physical good, a service, or a blend of both. Whereas Coke Zero Sugar, Jeep Wrangler, and the Samsung Galaxy phone are physical goods, the product for T-Mobile is the communication *service* it provides—sending texts, completing phone calls, and connecting customers to the Internet. The Product of a political party is the policies it works to achieve. The important thing to remember is that your good or service should satisfy some customers' needs.

(left): Twin Design/Shutterstock; (right): McGraw-Hill Education

Exhibit 2-5 Strategy Decision Areas Organized by the Four Ps

Product	Place	Promotion	Price
• Physical good • Service • Features • Benefits • Quality level • Accessories • Installation • Instructions • Warranty • Product lines • Packaging • Branding	• Objectives • Channel type • Market exposure • Kinds of intermediaries • Kinds and locations of stores • How to handle transporting and storing • Service levels • Recruiting intermediaries • Managing channels	• Objectives • Promotion blend • Salespeople Kind Number Selection Training Motivation • Advertising Targets Kinds of ads Media type Copy thrust Prepared by whom • Publicity • Sales promotion	• Objectives • Flexibility • Level over product life cycle • Geographic terms • Discounts • Allowances

Coca-Cola introduced Coke Zero Sugar to replace Coke Zero after sales of Zero didn't meet expectations and research showed customers didn't understand the benefits. Some of the Product decisions the marketing manager for Coke Zero Sugar made include the brand name (to make very clear that sugar was not an ingredient), product features (flavor similar to original Coke), and the packaging colors (changed to look more similar to Coke to attract traditional Coke customers).

Place—reaching the target

Place is concerned with all the decisions involved in getting the right product to the target market's Place. A product isn't much good to a customer if it isn't available when and where it's wanted.

A product reaches customers through a channel of distribution. A **channel of distribution** is any series of firms (or individuals) that participate in the flow of products from producer to final user or consumer.

Sometimes a channel of distribution is short and runs directly from a producer to a final user or consumer. This is common in business markets and in the marketing of services. For example, T-Mobile sells its phone services directly to final consumers. However, as shown in Exhibit 2–6, channels are often more complex—as when Coke Zero Sugar goes from Coca-Cola to wholesaler/bottlers and then to wholesalers and retailers before reaching consumers. When serving different target markets, a company may use more than one channel of distribution. For example, Coke Zero Sugar is distributed through a different channel of distribution (not shown) when customers pour a fountain drink in a McDonald's or Chick-fil-A restaurant.

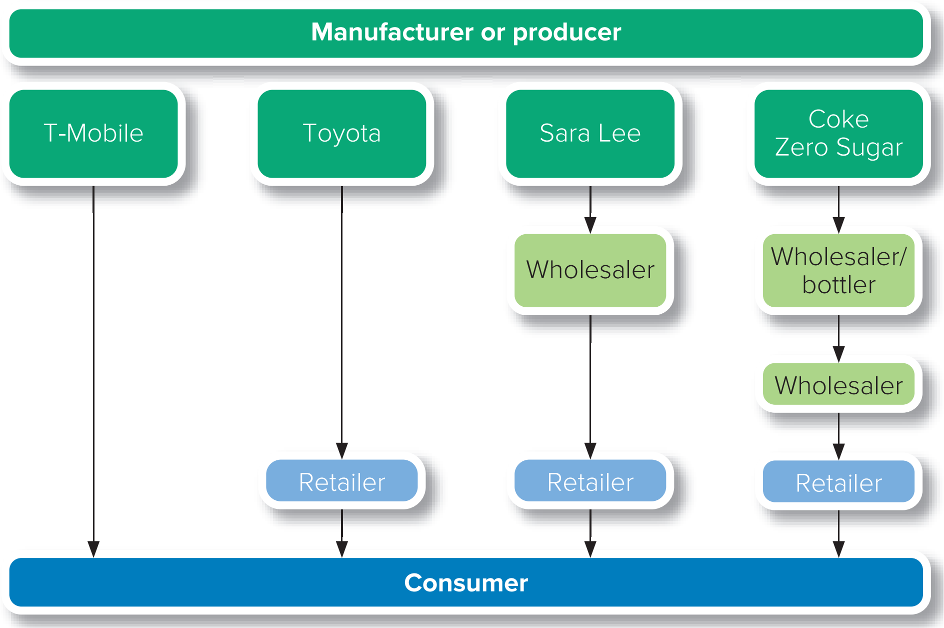
We will also see how physical distribution service levels and decisions concerning logistics (transporting, storing, and handling products) relate to the other Place decisions and the rest of the marketing mix.

Promotion—telling and selling the customer

The third P—Promotion—is concerned with telling the target market or others in the channel of distribution about the right product. Sometimes promotion is focused on acquiring new customers and sometimes it's focused on retaining current customers. Promotion includes personal selling, mass selling, and sales promotion. It is the marketing manager's job to blend these methods of communication.

Personal selling involves direct spoken communication between sellers and potential customers. Personal selling may happen face-to-face, over the telephone, or even via an online conference. Sometimes personal attention is required *after the sale.* **Customer service**—a personal communication between a seller and a customer who wants the

Exhibit 2–6 Four Examples of Basic Channels of Distribution for Consumer Products



Source: The Coca-Cola Company

seller to resolve a problem with a purchase—is often a key to building repeat business. Individual attention comes at a price; personal selling and customer service can be very expensive. This personal effort is often blended with mass selling and sales promotion.

Mass selling is communicating with large numbers of customers at the same time. The main form of mass selling is **advertising**—any *paid* form of nonpersonal presentation of ideas, goods, or services by an identified sponsor. Here the advertiser *pays* a media source (newspapers, television network, or website) for permission to place an advertisement. **Publicity**—any *unpaid* form of nonpersonal presentation of ideas, goods, or services—includes earning favorable coverage in newspaper stories and creating web pages that provide product information for interested customers. A brand page on social media—perhaps Facebook, Twitter, or Pinterest—might also tell customers about the right product.

Sales promotion refers to those promotion activities—other than advertising, publicity, and personal selling—that stimulate interest, trial, or purchase by final customers or others in the channel. This can involve the use of coupons, point-of-purchase materials, samples, signs, contests, events, catalogs, novelties, and circulars.

When Coke Zero became Coke Zero Sugar, TV, print, digital, and social media advertising as well as sales promotion let customers know what was new. Salespeople talked to buyers at fast-food, grocery, and convenience stores and often set up in-store sales promotions.

Price—making it right

In addition to developing the right Product, Place, and Promotion, marketing managers must also set the right Price. Price setting must consider the kind of competition in the target market and the cost of the whole marketing mix. A manager must also try to estimate customer reaction to possible prices. Besides this, the manager must know current practices as to markups, discounts, and other terms of sale. And if customers won't accept the Price, all of the planning effort is wasted.

The price of Coke Zero Sugar varies depending on the Place it is sold and the amount of customer convenience delivered. For example, the cost might be more than $0.25 per ounce ($4.00 for a 16-ounce cup) at a sports stadium or as low as $0.02 per ounce for warm cans at the grocery store ($2.99 per 12-pack).

The Four Ps deliver value

In Chapter 1 we introduced customer value. We described how customer value increases when customers perceive more benefits or lower costs. Marketing managers use the Four Ps to deliver customer value to a target market. For example, customers may perceive more value if the Product is of higher quality or includes more features; Place decisions make a product more convenient for customers to purchase; Promotion effectively communicates value; or Price is lowered. A firm must understand its target market to know how to best adjust the Four Ps to deliver value at a price that also delivers profits to the company.

Each of the Four Ps contributes to the whole

All Four Ps are needed in a marketing mix. In fact, they should all be tied together. But is any one more important than the others? Generally speaking, the answer is no—all contribute to one whole. When a marketing mix is being developed, all (final) decisions about the Four Ps should be made at the same time. That's why the Four Ps are arranged around the target market in a circle—to show that they all are equally important.

Let's sum up our discussion of marketing mix planning thus far. We develop a *Product* to satisfy the target customers. We find a way to reach our target customers' *Place.* We use *Promotion* to tell the target customers (and others in the channel) about the product that has been designed for them. And we set a *Price* after estimating expected customer reaction to the total offering and the costs of getting it to them. Together, a marketing mix should deliver customer value for the target market.

Strategy jobs must be done together

It is important to stress—and cannot be overemphasized—that selecting a target market *and* developing a marketing mix are interrelated. Both parts of a marketing strategy must be decided together. It is *strategies* that must be evaluated against the company's objectives—not alternative target markets or alternative marketing mixes.

Ethical Dilemma

What do you think? You are the marketing manager for Jones Department Stores, a 125-store chain in the northwestern United States. Your company used an outside developer to write the store's smartphone app. The developer just added some new location-based features. For example, customers can enter their "favorite Jones store" location into the app. When customers shop at the store, they can open the app to find a map of the store's layout. The store can also deliver coupons to customers while they shop in the store (the app knows they are there).

The developer also points out another feature. He tells you that another major retailer shows customers different prices on the app—depending on whether the customer is in the store or not. So, for example, the app might show the price of a particular sweater as $79 while in the store (matching the price tag in the store). But, when a customer who is not in the store looks at the same sweater on the app, the price would be lower—say $59. This other retailer found that in-store customers are much less price sensitive than online shoppers. Online shoppers can click somewhere else and buy—so Jones could offer more discounts to online shoppers compared to those in the store. Because the app knows when a customer is in the store, higher prices can be shown there. When the customer is using the app away from the store, lower prices could be shown. Jones can decide which products have lower online prices and how much to discount the price. This helps the store maximize profits. After all, why give customers a discount if they are willing to pay full price?

Would you recommend including this feature on the new version of the app? How would customers paying the higher price feel if they found out other customers paid lower prices? Explain.

Understanding target markets leads to good strategies

The needs of a target market often virtually determine the nature of an appropriate marketing mix, so marketers must analyze their potential target markets with great care. This book will explore ways to identify attractive market opportunities and develop appropriate strategies.

Let's look at the strategy planning process more closely in the classic case of Jeff Silverman and Toddler University (TU), Inc., a shoe company he started. During high school and college, Silverman worked as a salesperson at local shoe stores. He also gained valuable experience during a year working for Nike. From these jobs he learned a lot about customers' needs and interests. He also realized that some parents were not satisfied when it came to finding shoes for their preschool children.

Silverman saw there were many different types of customers for baby shoes, each group with a different set of needs. From his observations, there was one market that was underserved. These *Attentive Parents* wanted shoes that met a variety of needs. They wanted shoes to be fun and fashionable and functional. They didn't want just a good fit but also design and materials that were really right for baby play and learning to walk. These well-informed, upscale shoppers were likely to buy from a store that specialized in baby items. They were also willing to pay a premium price if they found the right product. Silverman saw an opportunity to serve the Attentive Parents target market with a marketing mix that combined, in his words, "fit and function with fun and fashion." He developed a detailed marketing plan that attracted financial backers, and his company came to life.

Toddler University's marketing strategy was successful because it developed a distinctive marketing mix that was precisely relevant to the needs of its target market.
Source: Toddler University

Silverman contracted with a producer in Taiwan to make shoes to his specs with his Toddler University brand name. TU's specs were different—they improved the product for this target market. Unlike most rigid high-topped infant shoes, TU's shoes were softer with more comfortable rubber soles. The shoes were stitched rather than glued so they lasted longer and included an extra-wide opening so the shoes slipped more easily onto squirming feet. A patented special insert allowed parents to adjust the shoes' width. The insert also helped win support from retailers. With 11 sizes of children's shoes—and five widths—retailers usually stocked 55 pairs of each style. TU's adjustable width reduced the stocking requirements, making the line more profitable than competing shoes. TU's Product and Place decisions worked together to provide customer value and also to give TU a competitive advantage.

For promotion, TU's print ads featured close-up photos of babies wearing the shoes and informative details about their special benefits. Creative packaging promoted the shoe and attracted customers in the store. For example, TU put one athletic-style shoe in a box that looked like a gray gym locker. TU also provided stores with "shoe rides"—electric-powered rocking replicas of its shoes. The rides attracted kids to the shoe department, and because they were coin-operated, they paid for themselves in a year.

TU priced most of its shoes at \$35 to \$40 a pair. This is a premium price, but the Attentive Parents typically have smaller families and are willing to spend more on each child.

In just four years, TU's sales jumped from \$100,000 to more than \$40 million. To keep growth going, Silverman expanded distribution to reach new markets in Europe. To take advantage of TU's relationship with its satisfied target customers, TU expanded its product line to offer shoes for older kids. Then Silverman made his biggest sale of all: He sold his company to Genesco, one of the biggest firms in the footwear business.[4]

The Marketing Plan Guides Implementation and Control

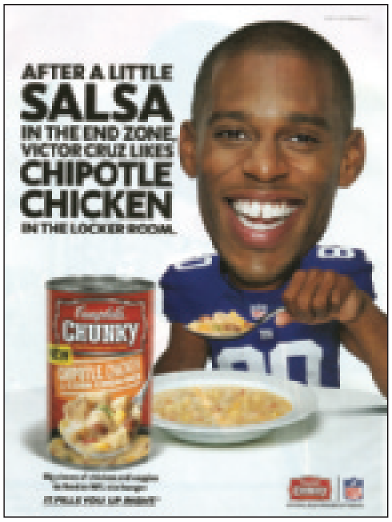
LO 2.5

Marketing plan fills out marketing strategy

As the Toddler University case illustrates, a marketing strategy sets a target market and a marketing mix. It is a big picture of what a firm will do in some market. A marketing plan goes farther. A **marketing plan** is a written statement of a marketing strategy *and* the time-related details for carrying out the strategy. It should spell out the following in detail: (1) what marketing mix will be offered, to whom (that is, the target market), and for how long; (2) what company resources (shown as costs) will be needed at what rate (month by month perhaps); and (3) what results are expected (sales and profits perhaps monthly or quarterly, customer satisfaction levels, and the like). The plan should also include some control procedures so that whoever is to carry out the plan will know if things are going wrong. This might be something as simple as comparing actual sales against expected sales with a warning flag to be raised whenever total sales fall below a certain level.

Appendix D provides a sample marketing plan for a veterinary clinic. At the end of each chapter, there is an exercise titled *Marketing Planning for Hillside Veterinary Clinic* that introduces you to aspects of a marketing plan as related to the topics in that chapter. This gives you a step-by-step way to learn how chapter concepts apply to marketing planning and to develop your plan-building skills as you progress through the text. In Chapter 19 we review all of the elements in a marketing plan. At that point, you will have learned about all of the major strategy decision areas (Exhibit 2–5) and how to blend them into an innovative strategy.

Campbell Soup Company develops different soups (and related marketing mixes) for the specific needs of different target markets. Customers looking for a soup that fills them up choose from the Campbell's Chunky line; Campbell's Soup on the Go offers convenience, and **#M4BW** Campbell's Well Yes! soups feature clean, simple, and nutritious ingredients.
Source: CSC Brands, L.P.



Implementation puts plans into operation

After a marketing plan is developed, a marketing manager knows *what* needs to be done. Then the manager is concerned with **implementation**—putting marketing plans into operation. Strategies work out as planned only when they are effectively implemented. Many **operational decisions**—short-run decisions to help implement strategies—may be needed.

Managers should make operational decisions within the guidelines set down during strategy planning. They develop product policies, place policies, and so on as part of strategy planning. Then operational decisions within these policies probably will be necessary—while carrying out the basic strategy. Note, however, that as long as these operational decisions stay within the policy guidelines, managers are making no change in the basic strategy. If the controls show that operational decisions are not producing the desired results, however, the managers may have to reevaluate the whole strategy—rather than just working harder at implementing it.

It's easier to see the difference between strategy decisions and operational decisions if we illustrate these ideas using our Toddler University example. Possible Four Ps or basic strategy policies are shown in the left-hand column in Exhibit 2–7, and examples of operational decisions are shown in the right-hand column.

It should be clear that some operational decisions are made regularly—even daily—and such decisions should not be confused with planning strategy. Certainly, a great deal of effort can be involved in these operational decisions. They might take a good

Exhibit 2-7 Relation of Strategy Policies to Operational Decisions for a Baby Shoe Company

Marketing Mix Decision Area	Strategy Policies	Likely Operational Decisions
Product	Carry as limited a line of colors, styles, and sizes as will satisfy the target market.	Add, change, or drop colors, styles, and/or sizes as customer tastes dictate.
Place	Distribute through selected "baby products" retailers that will carry the full line and provide good in-store sales support and promotion.	In market areas where sales potential is not achieved, add new retail outlets and/or drop retailers whose performance is poor.
Promotion	Promote the benefits and value of the special design and how it meets customer needs.	When a retailer hires a new salesperson, send current training package with details on product line; increase use of local newspaper print ads during peak demand periods (e.g., before holidays).
Price	Maintain a "premium" price, but encourage retailers to make large-volume orders by offering discounts on quantity purchases.	Offer short-term introductory price "deals" to retailers when a new style is first introduced.

part of the sales or advertising manager's time. But they are not the strategy decisions that will be our primary concern.

Analytical tools provide control

Our focus in this text is on developing marketing strategies. But eventually marketing managers must control the marketing plans that they develop and implement. The control job provides feedback so managers can change marketing strategies to better meet customer needs. To maintain control, a marketing manager uses a number of analytical tools to learn more about customers and their buying habits—and how they respond to changes to a firm's marketing mix.[5]

Marketing analytics–measure, manage, and analyze marketing performance

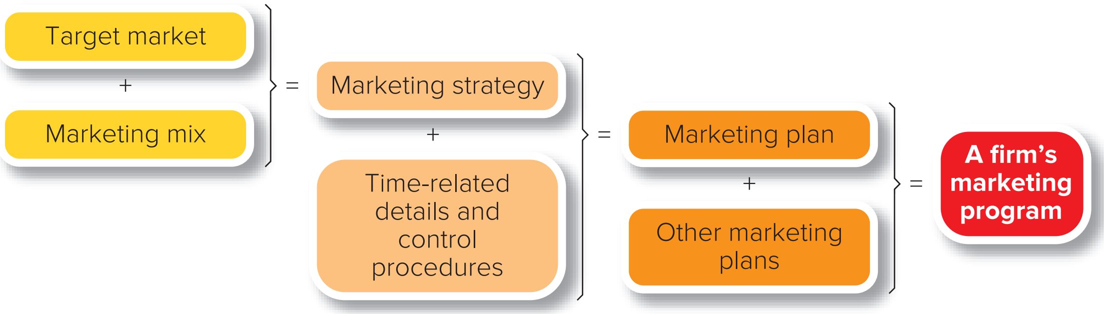
In Chapter 19 we examine control of whole marketing plans in a bit more detail. Yet marketing managers are often looking to measure specific customer activities along the customer's path toward making a purchase. This can help managers to make better segmenting, positioning, or marketing mix decisions. In Chapter 1 we introduced the term *marketing metrics*. Marketing metrics are used to perform **marketing analytics**—the practice of measuring, managing, and analyzing marketing performance to maximize its efficiency and effectiveness.[6]

Marketing managers have access to more and more data—especially when customers use computers and mobile devices to research and make purchases. This behavior can be tracked, compiled, and used for marketing analytics. Throughout the text we will discuss how these new technologies are used and also explore the ethical and legal questions they raise. To better understand how marketing managers use metrics and conduct marketing analytics, each chapter includes one *Marketing Analytics in Action* activity. Each of these activities describes a marketing metric and explains how it can be analyzed. Some of these activities include a link to an online calculator or spreadsheet to demonstrate the math.

Several plans make a whole marketing program

Most companies implement more than one marketing strategy—and related marketing plan—at the same time. Procter & Gamble (P&G) targets users of laundry detergent with at least three different strategies. Some consumers want Tide's superior cleaning capabilities; others prefer the color protection of Cheer or the pleasant scents of Gain. Each detergent has a different formulation and a different approach for letting its target market know about its benefits. Yet P&G must implement each of these marketing strategies at the same time—along with strategies for Bounty, Olay, Charmin, and many other brands.

Exhibit 2-8 Elements of a Firm's Marketing Program



A **marketing program** blends all of the firm's marketing plans into one "big" plan (see Exhibit 2-8). But the success of the marketing program depends on the care that goes into planning the individual strategies and how well they work together to create value for customers and the firm.

Recognizing Customer Lifetime Value and Customer Equity

LO 2.6

In Chapter 1 we introduced the idea that building customer value attracts customers, and satisfying those customers builds profitable long-term relationships. Let's take that a step further and understand how marketing strategies and marketing programs that build relationships with customers create ongoing financial value for a marketer.

Relationships increase customer lifetime value

Loyal customers continue to buy brands that satisfy them, often seeking out other products from that same company. Many firms recognize this and measure the **customer lifetime value (CLV)**, which is the total profits a single customer contributes to a firm over the length of the relationship. For example, Mallory, a 22-year-old college graduate, might purchase a new Honda Fit for $16,000. A few years later, Mallory could be in the market for a small sport-utility vehicle; if she was satisfied with the Fit and the service she received, Mallory might buy a Honda CR-V for $25,000. After a couple of kids, a Honda Odyssey minivan starts to look appealing, potentially followed by more Honda cars and trucks over the next few decades. A few Honda lawn mowers might also be purchased along the way. If Honda continues to provide good value to this customer, the lifetime total of her purchases of Honda products could exceed $400,000. If Honda makes a 10 percent profit (on average), the customer lifetime value for Mallory could approach $40,000.

This insight—the lifetime value of a customer—changes how many firms approach marketing strategy planning. This marketing analytic demonstrates how important it is for a company to retain customers over time. If Mallory was not satisfied with her initial Honda Fit, she may not have purchased more Honda products and may have had much lower customer lifetime value. A good marketing program satisfies customers and develops strategies to make it easy for satisfied customers to buy more from the company. Companies seek to build *long-term relationships* with customers. For example, Honda has vehicles to satisfy customers across different stages of life.

How can we estimate customer lifetime value?

Many firms collect data and measure customer lifetime value. There are different ways to calculate CLV. Which method works best depends on customer buying behavior, marketing practices, and available data. No matter the approach, three marketing metrics are needed to estimate customer lifetime value: (1) average profit margin, (2) retention rate, and (3) acquisition cost. Let's talk about these metrics next.

In Chapter 1 we talked about profit margin—and we will talk more about this when we get into the details of pricing in Chapter 17. For now, we will assume each customer has an *average profit margin* that can be estimated based on his or her purchases over some time period.

Of course, Mallory could keep buying Honda products or she might stop and buy a Toyota, Chevrolet, or BMW instead. The **retention rate** refers to the percentage of customers retained as compared to the total number of customers. So, for example, if this year Local Joe's coffee shop has 1,000 customers and next year, 800 of *those* customers are still patronizing Local Joe's for coffee (some might find a new coffee shop, move to a new city, or just stop drinking coffee), then the coffee shop has an 80 percent (800/1,000) retention rate.

The last marketing metric used to calculate CLV is **acquisition cost**—the expense required to acquire each new customer. For example, our coffee shop could spend $10,000 this year on advertising designed to attract new customers—and attract 100 new customers. The acquisition cost for each customer is the total advertising dollars spent divided by the number of new customers ($10,000/100 = $100) and results in an acquisition cost of $100 per customer.

Just to see how it works, we provide a simple example in the Marketing Analytics in Action: Customer Lifetime Value activity next.[7]

Marketing Analytics in Action: Customer Lifetime Value

Many firms use marketing metrics to calculate customer lifetime value (CLV). Recall that CLV is the total stream of purchases that a customer could contribute to the company over the length of the relationship.

To better understand how CLV is calculated, let's walk through an example. Consider Local Joe's—a small coffee shop on the lake in a midsized town in Minnesota. The owner, Joe, wonders how valuable one of his "regular" customers is—and how important it is for customer retention. He defines regular customers as those coming in at least once a week for more than a few months. Reading about CLV, Joe learns that he needs a few numbers to get started. He estimates these numbers from data and his knowledge of his customers:

1. Average profit margin per customer per year (M), estimated at $250 per year
2. Retention rate (R), estimated at 60 percent
3. Acquisition cost (AC), estimated at $125 per customer

These numbers are entered into a CLV equation to estimate CLV:

$$CLV = M*[R/(1 - R)] - AC$$

If we plug the numbers from 1 to 3 above into this equation, we estimate customer lifetime value as $250 per customer.

$$CLV = \$250* [0.6/(1 - 0.6)] - \$125 = \$250$$

1. *Calculate the customer lifetime value if Local Joe's increases its retention rate to 70 percent. To do this, use the equation above and change 0.6 to 0.7.*
2. *If Local Joe's charged higher prices, it could possibly earn a higher average profit margin per customer. Calculate customer lifetime value if average profit margin per customer rose to $300 per year (note, assume the 60 percent retention rate).*
3. *Describe two marketing tactics that Local Joe's could use to increase customer lifetime value. Tie your answers to how each might change the numbers in the customer lifetime value equation.*

Customer equity considers lifetime value of all current and future customers

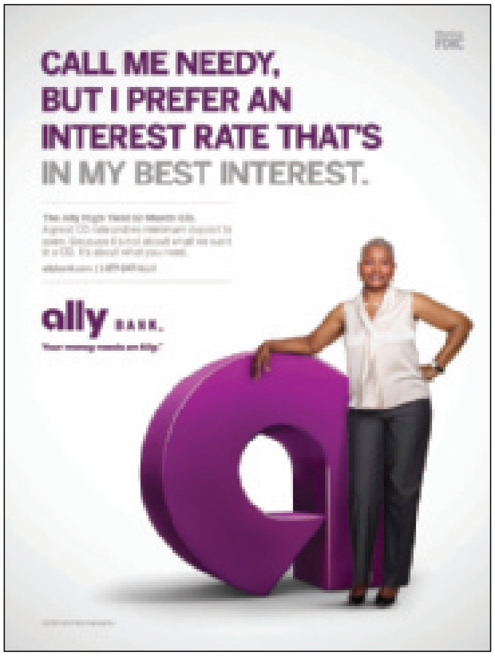
Customer lifetime value is an estimate of a *single* customer's value. We can carry this idea a step further by considering *all of a firm's current and future customers* and the revenue and costs associated with each. **Customer equity** is the expected earnings stream (profitability) of a firm's current and prospective customers over some period of time.

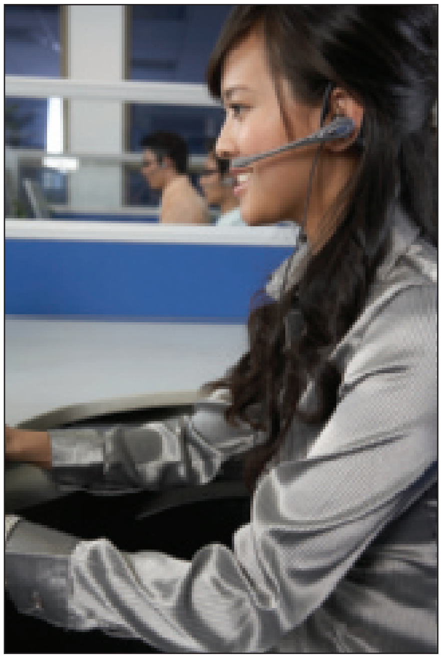
While it is possible to estimate customer equity, the math is beyond the scope of this book. Still, the idea of customer equity can be a useful guide for developing marketing strategy. Following a customer equity approach guides the marketing manager to make marketing decisions that enhance the firm's long-term profits—not just for the next quarter or year. By estimating the impacts that different marketing strategies and marketing programs have on customer equity, a firm can make marketing decisions with long-run financial implications in mind.

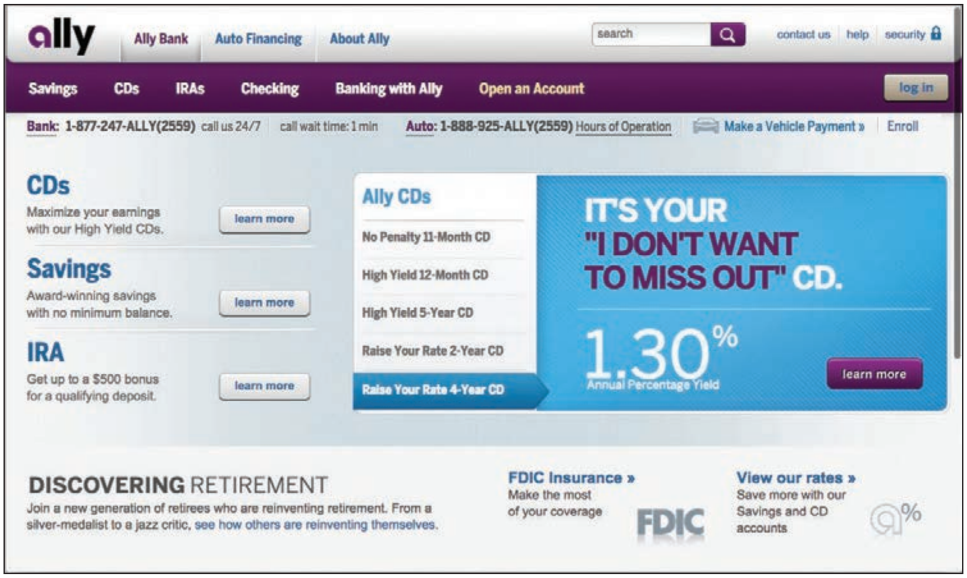
Customer equity focuses on the revenues and costs of acquiring, retaining, and enhancing customers

The customer equity approach also suggests three potential paths for growth: (1) *acquiring* new customers, (2) *retaining* current customers, and (3) *enhancing* the customer value by increasing their purchases. Each of these efforts (acquiring, retaining, and enhancing) has its own costs and benefits as well.

Some firms conducting this analysis find that it costs less to retain a customer than to acquire a new one. This insight can lead a firm to increase investments to retain customers—for example, spending more on customer service. A marketing manager should evaluate the effectiveness of a marketing mix in achieving each of these objectives, considering long-term revenues and costs. Typically, a marketing plan includes different marketing strategies to address each of these goals. So, for example, a plan should recognize that as it acquires more customers, it will soon need to increase investments in customer retention because there will be more customers to retain.







Ally Bank wants to grow its revenue and profitability from each customer—leading to greater customer equity. Ally Bank *acquires* many new customers who seek higher interest rates on their savings accounts—see the first advertisement. Those interest rates and Ally's 24 hours a day, 7 days a week telephone customer service help the bank *retain* customers. As an online bank, customers regularly visit the bank's website. Customer equity also grows when current customers buy other products from a company; Ally *enhances* customer equity when customers purchase additional financial services from Ally including CDs, IRAs, and auto loans.

(top-left and bottom): Source: Ally Financial Inc.; (top-right): Blue jean images RF/Getty Images

Different marketing strategies for acquiring, retaining, and enhancing

Acquiring customers requires a marketing strategy that targets customers who are not currently using a firm's products. Retaining and enhancing customers are different efforts that target current customers and attempt to keep or grow their purchases. Consider Harry's, an online seller of shaving supplies:

Source: Harry's, Inc.

- *Customer acquisition:* Harry's targets new customers with a special "Starter Set" that offers a razor handle, a few blades, and small bottle of shaving gel at a special price.
- *Customer retention:* Customers are automatically signed up for refills every few months—which serves as a strategy for retaining current customers. High-quality razors and blades at a low price also keep customers coming back.
- *Enhanced customer value:* Harry's added more products, including bar soap, body wash, and post-shave balm—and uses e-mails to encourage customers who buy its razors and blades to buy even more. This further enhances an individual's lifetime value and the portfolio of customers' equity.

What Are Attractive Opportunities?

LO 2.7

Effective marketing strategy planning matches opportunities to the firm's resources (what it can do) and its objectives (what top management wants to do). Successful strategies get their start when a creative manager spots an attractive market opportunity. Yet an opportunity that is attractive for one firm may not be attractive for another. Attractive opportunities for a particular firm are those that the firm has some chance of doing something about—given its resources and objectives.

Breakthrough opportunities are best

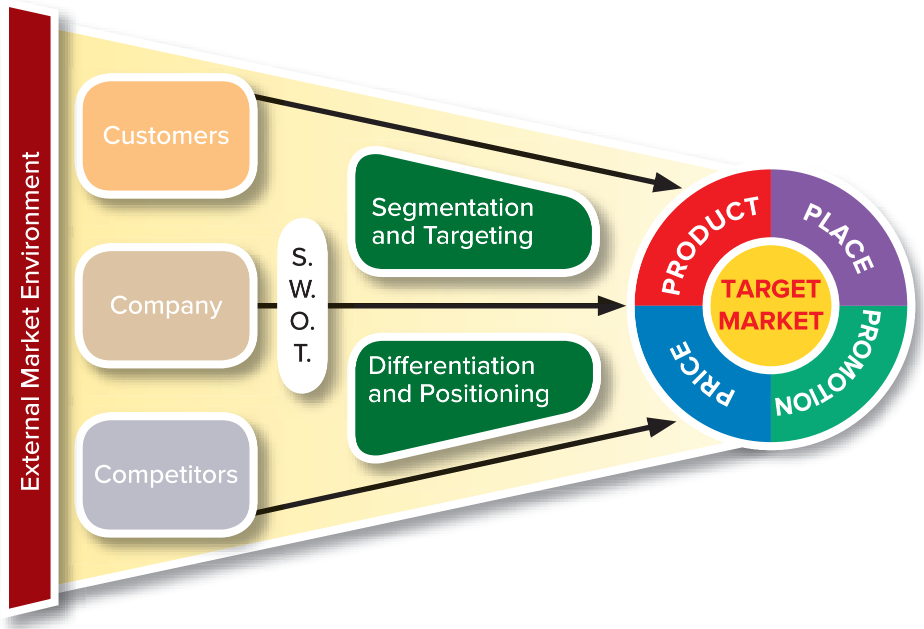
Throughout this book, we will emphasize finding **breakthrough opportunities**—opportunities that help innovators develop hard-to-copy marketing strategies that will be very profitable for a long time. That's important because there are always imitators who want to "share" the innovator's profits—if they can. It's hard to continuously provide *superior* value to target customers if competitors can easily copy your marketing mix.

Competitive advantage is needed—at least

Even if a manager can't find a breakthrough opportunity, the firm should try to obtain a competitive advantage to increase its chances for profit or survival. **Competitive advantage** means that a firm has a marketing mix that the target market sees as better than a competitor's mix. A competitive advantage may result from

Uber discovered a breakthrough opportunity and developed a hard-to-copy marketing strategy. Uber's smartphone app connects people looking for rides with drivers who will pick them up and take them to their desired location. Uber is taking that strategy global—this ad targets new drivers in India. Translation: "I earn even more than 90,000 rupees. I am an Uber driver partner."
Source: Uber

Exhibit 2-9 Overview of Marketing Strategy Planning Process



Note: The marketing manager narrows down from screening broad market opportunities to develop a focused marketing strategy. S.W.O.T. denotes Strengths, Weaknesses, Opportunities, and Threats.

efforts in different areas of the firm—cost cutting in production, innovative R&D, more effective purchasing of needed components, or financing for a new distribution facility. Similarly, a strong sales force, a well-known brand name, or good dealers may give it a competitive advantage in pursuing an opportunity. Whatever the source, an advantage succeeds only if it allows the firm to provide superior value and satisfy customers better than some competitor.

Walgreens' source of competitive advantage emerges from being the largest drug retailing chain in the United States. The retailer operates 8,300 stores spread across all 50 states. Almost anywhere in the United States, consumers will find a Walgreens nearby. Many of Walgreens' target customers place a high value on convenience, making this source of competitive advantage particularly relevant. Because it would be costly to build as many stores, this strategy is hard for competitors to copy.

Avoid hit-or-miss marketing with a logical process

You can see why a manager *should* seek attractive opportunities. But that doesn't mean that everyone does—or that everyone can turn an opportunity into a successful strategy. It's all too easy for a well-intentioned manager to react in a piecemeal way to what appears to be an opportunity. Then by the time the problems are obvious, it's too late.

Developing a successful marketing strategy doesn't need to be a hit-or-miss proposition. And it won't be if you learn the marketing strategy planning process developed in this text. Exhibit 2–9 summarizes the marketing strategy planning process we'll be developing throughout the rest of the chapters.

Marketing Strategy Planning Process Highlights Opportunities

We've emphasized that a marketing strategy requires decisions about the specific customers the firm will target and the marketing mix the firm will develop to appeal to that target market. We can organize the many marketing mix decisions (review Exhibit 2–5) in terms of the Four Ps—Product, Place, Promotion, and Price. Thus, the "final" strategy decisions are represented by the target market surrounded by the Four Ps. However, the idea isn't just to come up with *some* strategy. After all, there are hundreds or even thousands of combinations of marketing mix decisions and target markets (i.e., strategies) that a firm might try. Rather, the challenge is to zero in on the *best* strategy.

Process narrows down from broad opportunities to specific strategy

As Exhibit 2-9 suggests, it is useful to think of the marketing strategy planning process as a narrowing-down process. Later in this chapter and in Chapters 3 and 4 we will go into more detail about strategy decisions relevant to each of the terms in this figure. Then, throughout the rest of the book, we will present a variety of concepts and "how to" frameworks that will help you improve the way you make these strategy decisions. As a preview of what's coming, let's briefly overview the general logic of the process depicted in Exhibit 2-9.

Customers want to buy a product that is different from what competitors offer. Bounty wants its target customers to know that its more absorbent paper towels help customers save by using less than a "leading ordinary brand."
Source: Procter & Gamble

The process starts with a broad look at a market—paying special attention to customer needs, the firm's objectives and resources, and competitors. This helps identify new and unique opportunities that might be overlooked if the focus is narrowed too quickly.

Screening criteria make it clear why you select a strategy

There are usually more opportunities—and strategy possibilities—than a firm can pursue. Each one has its own advantages and disadvantages. Trends in the external market environment may make a potential opportunity more or less attractive. These complications can make it difficult to zero in on the best target market and marketing mix. However, developing a set of specific qualitative and quantitative screening criteria can help a manager define what business and markets the firm wants to compete in. We will cover screening criteria in more detail in Chapter 3. For now, you should realize that the criteria you select in a specific situation grow out of an analysis of the company's objectives and resources.

S.W.O.T. analysis highlights advantages and disadvantages

A useful aid for organizing information from the broader market and developing relevant screening criteria is the **S.W.O.T. analysis**—which identifies and lists the firm's strengths, weaknesses, opportunities, and threats. The name *S.W.O.T.* is simply an abbreviation for the first letters in the words *s*trengths, *w*eaknesses, *o*pportunities, and *t*hreats. Strengths and weaknesses come from assessing the company's resources and capabilities. For example, a local farmer's market might have a great reputation in its community (strength) but have limited financial resources (weakness).

Opportunities and threats emerge from an examination of customers, competition, and the external market environment. The farmer's market might see an opportunity when a growing number of customers in its community show an interest in eating locally grown fruits and vegetables, whereas a threat could be a drought that limits local farmers' production. With a S.W.O.T. analysis, a marketing manager can begin to identify strategies that take advantage of the firm's strengths and opportunities while avoiding weaknesses and threats.

Segmentation helps pinpoint the target

In the early stages of a search for opportunities, we're looking for customers with needs that are not being satisfied as well as they might be. Of course, potential customers are not all alike. They don't all have the same needs—nor do they always want to meet needs in the same way. Part of the reason is that there are different possible types of customers with many different characteristics. In spite of the many possible differences, there often are subgroups (segments) of consumers who are similar and could be satisfied with the same marketing mix. Thus, we try to identify and understand these different subgroups with market segmentation. We will explain approaches for segmenting markets later in Chapter 4. Then, in Chapters 5 and 6, we delve into the

What's Next? Offer more by offering less

In increasingly competitive markets, many companies struggle to find a marketing mix that genuinely differs from the competition. For example, just how differently do customers perceive Shell and Exxon gasoline? Levi's and Lee jeans? Visa and MasterCard? American Airlines, Delta Air Lines, and United Airlines? Whereas some customers see big differences and have a favorite, many see little difference and buy the lowest-priced option.

Sometimes *What's Next?* involves figuring out how to go in a different direction from the competition. Some clever brands differentiate by offering *less* than the competition in most areas—and then add a little something *extra* and *unexpected* for the category. Take a look at JetBlue. When JetBlue entered the air travel market in 2000, all of the major airlines offered free meals on every flight; the choice of flying in first class, business class, or coach; and a wide range of fares. JetBlue offered none of these benefits. But JetBlue wasn't a budget carrier, either. Every plane featured something extra—plush leather seats from the front to the back of the plane and satellite television in every seat. JetBlue also promised to never bump anyone from a flight. Over time, competitors followed JetBlue's lead, so its initial differentiation declined—yet many customers still see differences and remain loyal.

If you live in the western United States, you might find an In-N-Out Burger nearby. Unlike other fast-food joints, In-N-Out doesn't have kids' meals, salads, or desserts. In fact, the menu includes just six items! Yet there is more here than meets the eye. In-N-Out makes everything on the menu from scratch using fresh (not frozen) ingredients. Plus, it has a "secret menu"; only insiders know what it means to ask for an order "Protein Style" or "Animal Style." This combination differentiates it from McDonald's—and keeps loyal customers coming back for more.

When IKEA stores began selling furniture, appliances, and home accessories in the United States, there was nothing like it. American furniture shoppers were accustomed to high levels of customer service and a wide selection of styles. IKEA arrived with only Danish-style furnishings, little sales help on the showroom floor, and no delivery service—and by the way, you had to put the furniture together yourself when you got it home. The furniture was cheap, just like the prices. IKEA told customers they should plan to replace it in a few years. Yet IKEA stores are not bare bones—each features a restaurant with smoked salmon and Swedish meatballs and free day care for the kids of shopping parents.

Some businesses differentiate by offering more than the competition—test-drive a 740-horsepower Ferrari or stay at a luxurious Mandarin Oriental Hotel. On the other hand, JetBlue, In-N-Out, and IKEA went the other direction. When competitors added more, these companies offered less—except for something special—and their most loyal customers appreciate the difference.[8]

What other brands can you think of that have differentiated by offering less?

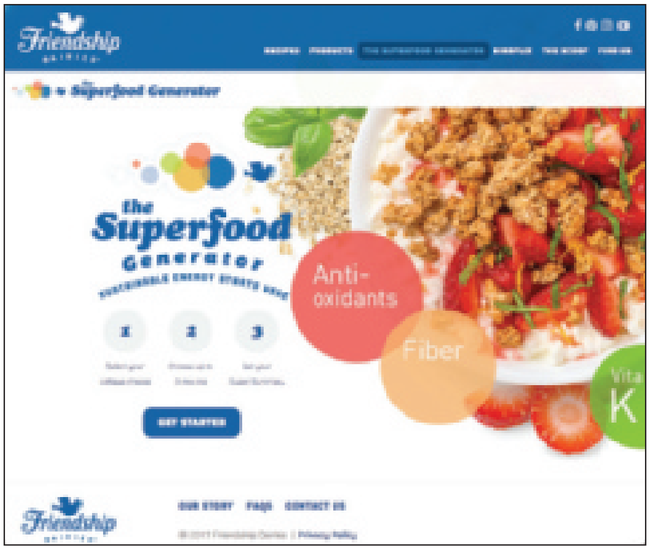
many interesting aspects of customer behavior. For now, however, you should know that understanding customers is at the heart of using market segmentation to narrow down to a specific target market. In other words, segmentation helps a manager decide to serve some segment(s)—subgroup(s) of customers—and not others.

Customers want something different

A marketing mix won't get a competitive advantage if it *just* meets needs in the same way as some other firm. Marketing managers want to identify customer needs that are not being addressed or might be met better than the competition. Combining analyses of customers, competitors, and the company helps the marketing manager identify possible strategies that differentiate a marketing mix from the competition. **Differentiation** means that the marketing mix is distinct from what is available from a competitor. For some examples of differentiation, read *What's Next?* Offer more by offering less. In Chapter 4 we will discuss differentiation and how it is used to help position a brand in a customer's mind.

Narrowing down to a superior marketing mix

Sometimes difference is based mainly on one important element of the marketing mix—say, an improved product or faster delivery. However, differentiation often requires that the firm fine-tune all of the elements of its marketing mix to the specific needs of a distinctive target market. Target customers are more likely to recognize differentiation when there is a consistent theme integrated across the Four Ps decision areas. The theme should emphasize the differences so target customers will think of the firm as being in a unique position to meet their needs.



Friendship Dairies (FD) saw its mainstay cottage cheese product fall in sales as Greek yogurt became popular. An analysis of its traditional customers revealed that many now purchased "superfoods" like nuts and berries. So Friendship Dairies repositioned its cottage cheeses as "the original superfood," a perfect "mixer" with other superfoods. This positioning was reinforced with FD promotions and a website.
Source: Friendship Dairies

Let's take a look at how Friendship Dairies' marketing strategy planning and differentiation revived sales for its brand of cottage cheese. Friendship Dairies (FD) is a strong regional brand of cottage cheese found in the northeastern United States and Florida. When Greek yogurt burst on the scene around 2006, it took a lot of sales from cottage cheese—FD's sales fell by more than half in the next five years. When FD's marketing managers analyzed customers, they found that many of its target customers were looking for "superfoods"—like nuts, berries, and vegetables. As a company, Friendship Dairies knew its cottage cheese had been a healthy food since FD started making it in 1917. So it repositioned the brand as the "original superfood." FD wanted customers to see that cottage cheese mixed well with other superfoods for customers seeking a healthy lifestyle.

Friendship Dairies' marketing strategy sought to demonstrate to its target customers how it differed from the competition and created customer value. Among its operational decisions, FD posted cottage cheese–centric recipes featuring other superfood mix-ins on its website and made them easy to share on social media. FD's online Superfood Generator encouraged customers to find their own mix-ins, and demonstrated the health benefits of each combination. It created joint promotions with "mix-in" brands like Dole Pineapple. New bright and colorful packaging attracted attention to FD on grocery store shelves. Coupons provided an incentive for customers to put FD cottage cheese in their shopping carts.

Starting with a broad look at the market (customers, competitors, company, and context), FD's marketing managers narrowed down to a specific strategy. And it worked. Customers liked this superfood—data showed many new customers bought cottage cheese for the first time, visits to FD's website jumped 600 percent, and sales increased 9 percent in just one year.[9]

Exhibit 2–9 focuses on planning each strategy by carefully narrowing down to a specific marketing strategy. Of course, this same approach works well when several strategies are to be planned. This may require different managers working together to develop a marketing program that increases customer equity.[10]

Types of Opportunities to Pursue

LO 2.8

Many opportunities seem obvious only after someone else identifies them. So, early in the marketing strategy planning process it's useful for marketers to have a framework for thinking about the broad kinds of opportunities they may find. Exhibit 2–10 shows four broad possibilities: market penetration, market development, product development, and diversification. We will look at these separately to clarify the ideas. These opportunities differ depending on whether a firm targets its current customers or new ones—and whether it uses existing or new products. However, some firms pursue more than one type of opportunity at the same time.

Exhibit 2-10 Four Basic Types of Opportunities

	Present products	New products
Present markets	Market penetration	Product development
New markets	Market development	Diversification

Market penetration

Market penetration means trying to increase sales of a firm's present products in its present markets—probably through a more aggressive marketing mix. The firm may try to strengthen its relationship with customers to increase their rate of use or repeat purchases or try to attract competitors' customers or current nonusers.

The ridesharing service Uber knew a prime opportunity was to get its current customers to use the Uber service more often, so it introduced Uber Rewards. Customers earn points each time they use an Uber service. Points can earn customers cash back, priority pickups at airports, and complimentary upgrades. Customers often spend more to earn points.

Market development

Market development means trying to increase sales by selling present products in new markets. This may involve searching for new uses for a product. For example, Vievu makes body cameras for law enforcement officers, but it found a new market among plumbers, electricians, and home appliance repair people. These professionals use the body cameras to show customers the work they did on their homes.

Once it had a solid footing in the U.S. market, Uber moved into many international markets—developing these markets by replicating the app and model it used in the United States in other countries.

Product development

Product development means offering new or improved products for present markets. By knowing the present market's needs, a firm may see new ways to satisfy customers. A few years after it started as a ridesharing service, Uber developed a food ordering and delivery service called Uber Eats. Uber was able to build on its well-known brand and keep its drivers happy with a new source of income.

Innocent Drinks started producing smoothies in the United Kingdom. After its success there, Innocent moved the same products into other European countries including Germany. This is an example of market development. Arm & Hammer already made kitty litter, but the company's research and development produced a completely new product, Clump & Seal, for its present customers. This is an example of product development, a new product for present markets.
(left): Source: Innocent Germany; (right): Source: Arm&Hammer

Diversification

Diversification means moving into totally different lines of business—perhaps entirely unfamiliar products, markets, or even levels in the production–marketing system. Products and customers that are very different from a firm's current base may look attractive to the optimists—but these opportunities are usually hard to evaluate. That's why diversification usually involves the biggest risk. McDonald's, for example, opened two hotels in Switzerland. The plan was to serve families on the weekend, but business travelers were the target during the week. Business travelers are not the group that McDonald's usually serves, and an upscale hotel is very different from a fast-food restaurant. This helps explain why operation of the Golden Arch hotels was taken over by a hospitality management company after two years.

Uber has also sought new opportunities for growth through diversification. Uber added a tractor-trailer rental business and now leases hundreds of tractor-trailers, connecting this new product line to trucking firms in need of a trailer. The technology underlying the Uber app makes the hookup.[11]

Which opportunities come first?

Usually firms find attractive opportunities fairly close to markets they already know. Most firms think first of greater market penetration. They want to increase profits and grow customer equity where they already have experience and strengths. On the other hand, many firms find that market development—including the move into new international markets—profitably takes advantage of current strengths.

International Opportunities Should Be Considered

LO 2.9

It's easy for a marketing manager to fall into the trap of ignoring international markets, especially when the firm's domestic market is prosperous. Yet there are good reasons to go to the trouble of looking elsewhere for opportunities.

The world is getting smaller

Many countries have reduced barriers, such as taxes on imports, which in the past made international trade more costly. These moves have increased international trade all over the world. In addition, advances in e-commerce, transportation, and communications are making it easier and cheaper to reach international customers. With a website and e-mail, even the smallest firm can provide international customers with a great deal of information—and easy ways to order—at very little expense.

Develop a competitive advantage at home and abroad

If customers in other countries are interested in the products a firm offers—or could offer—serving them may improve economies of scale. Lower costs (and prices) may give a firm a competitive advantage both in its home markets *and* abroad. Black & Decker, for example, uses electric motors in many of its tools and appliances. By selling overseas as well as in the United States, it achieves economies of scale and the cost per motor is very low.

Get an early start in a new market

A company facing tough competition, thin profit margins, and slow sales growth at home may get a fresh start in another country where demand for its product is just beginning to grow. A marketing manager may be able to transfer marketing know-how—or some other competitive advantage—the firm has already developed. Consider JLG, a Pennsylvania-based producer of equipment used to lift workers and tools at construction sites. Faced with tough competition, JLG's profits all but evaporated. By cutting costs, the company improved its domestic sales. But it got an even bigger boost from expanding overseas. In the first five years, its international sales were greater than what its total sales had been before. Then, when JLG added distribution in China, international sales grew to be half of its business. JLG sales in Europe benefit from new safety rules that require workers to be on an aerial platform if they're working up high. JLG continues to enjoy global growth.[12]

Find better trends in variables

Unfavorable trends in the market environment at home—or favorable trends in other countries—may make international marketing particularly attractive. For example, population growth in the United States has slowed and income is leveling off. In other places in the world, population and income are increasing rapidly. Many U.S. firms can no longer rely on the constant market growth that once drove increased domestic sales. Growth—and perhaps even survival—will come only by aiming at more distant customers. It doesn't make sense to casually assume that all of the best opportunities exist at home.[13]

A growing middle class and an interest in Western fashion are making China a more attractive opportunity for Levi's. Its "Live in Levi's" campaign, here showing a Chinese New Year celebration, is designed to reinforce the fun and rebellious image the brand wants to represent.
Source: Levi Strauss & Co.

Weigh the risks of going abroad

Marketing managers should consider international opportunities, but risks are often higher in foreign markets. Many firms fail because they don't know the foreign country's culture. Learning foreign regulations can be difficult and costly. Political or social unrest makes it difficult to operate in some countries. Venezuela is a striking example. Current Venezuelan leaders have threatened to nationalize some international businesses that have located there. Careful planning can help reduce some of these risks, but ultimately managers must assess both the risks and opportunities that exist in each international market.

#M4BW

International markets can be opportunities for making the world better

There are plenty of opportunities for companies to improve the quality of life in developing countries—and still make a profit. For example, the French food company Danone has long had an interest in developing markets. In Brazil, it reformulated its best-selling cheese (reducing sugar and adding vitamins) to improve nutrition for Brazilian youth. In Bangladesh, Danone developed a nutrient-rich Danone yogurt for children.[14]

Norwegian fertilizer maker Yara helped launch a green revolution in the East African country of Tanzania. Yara led a public–private partnership to revitalize an area of Tanzania the size of Italy—making it more farming friendly and boosting the incomes of small local farmers. Yara sells fertilizer and teaches better farming techniques. Many farmers have seen a 10-fold increase in crop yields since the program began, and Yara how holds a 50 percent market share in the country. These kinds of win–win (good for a business and good for society) opportunities are at the heart of the marketing concept and marketing for a better world.[15]

CONCLUSION

This chapter introduced you to the basic decision areas involved in marketing strategy planning and explained the logic for the marketing strategy planning process summarized in Exhibit 2-9. In the remainder of this book we'll rely on this exhibit as a way to highlight the organization of the topics we are discussing.

In this chapter, you learned that the marketing manager must constantly study the market environment—seeking attractive opportunities and planning new strategies. You learned about the difference between target marketing and a target marketer. A marketing strategy specifies a target market and the marketing mix the firm will offer to provide that target market with superior customer value. A marketing mix has four major decision areas: the Four Ps—Product, Place, Promotion, and Price.

Controls are needed to ensure that the marketing plans are carried out successfully. If anything goes wrong along the way, continual feedback should cause the process to be started over again—with the marketing manager planning more attractive marketing strategies. Thus, the job of marketing management is one of continuous planning, implementation, and control. Strategies are not permanent; changes should be expected as market conditions change.

The chapter also introduced the ideas of customer lifetime value and customer equity. These concepts reinforce the importance of retaining customers by delivering superior customer value. The importance of building customer equity suggests different marketing strategies might aim at acquiring, retaining, and enhancing customers. Another framework suggested that opportunities might be based on growing current customers and on developing new markets, new products, or both.

There are usually more potential opportunities than a firm can pursue, so possible target markets must be matched with marketing mixes the firm can offer. This is a narrowing-down process. The most attractive strategies—marketing plans and whole marketing programs—are chosen for implementation.

Firms need effective strategy planning to survive in our increasingly competitive markets. The challenge isn't just to come up with some strategy, but to zero in on the strategy that is best for the firm given its objectives and resources—and taking into consideration its strengths and weaknesses and the opportunities and threats that it faces. To improve your ability in this area, this chapter introduces a framework for marketing strategy planning. The rest of this text is organized to deepen your understanding of this framework and how to use it to develop profitable marketing mixes for clearly defined target markets. After several chapters on analyzing target markets, we will discuss each of the Four Ps in greater detail.

KEY TERMS

LO 2.10

marketing management process, 34
strategic (management) planning, 35
marketing strategy, 35
target market, 35
marketing mix, 35
target marketing, 36
mass marketing, 36
channel of distribution, 39
personal selling, 39
customer service, 39
mass selling, 40
advertising, 40
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customer lifetime value (CLV), 45
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breakthrough opportunities, 48
competitive advantage, 48
S.W.O.T. analysis, 50
differentiation, 51
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market development, 53
product development, 53
diversification, 54

QUESTIONS AND PROBLEMS

1. Review the Cirque du Soleil case study that opens the chapter. From this case, identify examples of different key terms and concepts covered in the chapter. For example, both the shows and DVDs are examples of Product.
2. Review the Cirque du Soleil case study that opens the chapter. Offer an example of each of the four basic types of opportunities (see Exhibit 2-10 and related discussion) that Cirque du Soleil could pursue. These do not have to be examples that Cirque du Soleil is currently pursuing.
3. Distinguish clearly between a marketing strategy and a marketing mix. Use an example.
4. Distinguish clearly between mass marketing and target marketing. Use an example.
5. Why is the target market placed in the center of the Four Ps in the text diagram of a marketing strategy (Exhibit 2-4)? Explain using a specific example from your own experience.
6. If a company sells its products only from a website, which is accessible over the Internet to customers from all over the world, does it still need to worry about having a specific target market? Explain your thinking.
7. Explain, in your own words, what each of the Four Ps involves.
8. Evaluate the statement "A marketing strategy sets the details of implementation."
9. Distinguish between strategy decisions and operational decisions, illustrating for a local retailer.
10. In your own words, explain what customer equity means and why it is important.
11. Consider two vastly different companies—one sells oral health care products (toothbrushes, toothpaste, and mouthwash), the other is a ridesharing service (like Lyft or Uber). For each of these companies, describe the firm's tactics (consider the Four Ps) in (a) acquiring customers, (b) retaining customers, and (c) enhancing sales from customers.
12. Distinguish between a strategy, a marketing plan, and a marketing program, illustrating for a local retailer.
13. Outline a marketing strategy for each of the following new products: (a) a radically new design for a toothbrush, (b) a new fishing reel, (c) a new resort hotel on a beach in Mexico, and (d) a new industrial stapling machine.
14. Provide a specific illustration of why marketing strategy planning is important for all businesspeople, not just for those in the marketing department.

15. Research has shown that only about three out of every four customers are, on average, satisfied by a firm's marketing programs. Give an example of a purchase you made where you were not satisfied and what the firm could have changed to satisfy you. If customer satisfaction is so important to firms, why don't they score better in this area?
16. Distinguish between an attractive opportunity and a breakthrough opportunity. Give an example.
17. Explain how new opportunities may be discovered by defining a firm's markets more precisely. Illustrate with a situation where you feel there is an opportunity—namely, an unsatisfied market segment—even if it is not very large.
18. In your own words, explain why the book suggests that you should think of marketing strategy planning as a narrowing-down process.
19. Explain the major differences among the four basic types of growth opportunities discussed in the text and cite examples for two of these types of opportunities.
20. Explain why a firm may want to pursue a market penetration opportunity before pursuing one involving product development or diversification.
21. In your own words, explain several reasons why a marketing manager should consider international markets when evaluating possible opportunities.
22. Give an example of a foreign-made product (other than an automobile) that you personally have purchased. Give some reasons why you purchased that product. Do you think that there was a good opportunity for a domestic firm to get your business? Explain why or why not.

MARKETING PLANNING FOR HILLSIDE VETERINARY CLINIC

Appendix D (the Appendices follow Chapter 19) includes a sample marketing plan for Hillside Veterinary Clinic. Skim through the different sections of the marketing plan. Look closely at the "Marketing Strategy" section.

1. What is the target market for this marketing plan?
2. What is the strategy Hillside Veterinary Clinic intends to use?
3. What are your initial reactions to this strategy? Do you think it will be successful? Why or why not?

SUGGESTED CASES

3. NOCO United Soccer Academy
4. Petoskey Tech Support
5. Resin Dynamics

12. DrV.com—Custom Vitamins
17. Wise Water, Inc.

Video Case 1. Potbelly Sandwich
Video Case 3. Big Brothers Big Sisters of America

MARKETING ANALYTICS: DATA TO KNOWLEDGE

CHAPTER 2: TARGET MARKETING

Marko, Inc.'s managers are comparing the profitability of a target marketing strategy with a mass marketing "strategy." The spreadsheet gives information about both approaches.

The mass marketing strategy is aiming at a much bigger market. But a smaller percentage of the consumers in the market will actually buy this product—because not everyone needs or can afford it. Moreover, because this marketing mix is not tailored to specific needs, Marko will get a smaller share of the business from those who do buy than it would with a more targeted marketing mix.

Just trying to reach the mass market will take more promotion and require more retail outlets in more locations—so promotion costs and distribution costs are higher than with the target marketing strategy. On the other hand, the cost of producing each unit is higher with the target marketing strategy—to build in a more satisfying set of features. But because the more targeted marketing mix is trying to satisfy the needs of a specific target market, those customers will be willing to pay a higher price.

In the spreadsheet, "quantity sold" (by the firm) is equal to the number of people in the market who will actually buy one each of the product—multiplied by the share of those purchases won by the firm's marketing mix. Thus, a change in the size of the market, the percentage of people who purchase, or the share captured by the firm will affect quantity sold. And a change in quantity sold will affect total revenue, total cost, and profit.

See Connect for the spreadsheet and questions needed to analyze this scenario.

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Student Resources

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- **7 days/week Customer Experience Group** student tech support (online, email, phone).

Faculty Resources

Analytics in SmartBook 2.0 and Connect to help instructors tailor lectures and discussions, including but not limited to:

- **Connect's AACSB-tagged quiz and test banks** provide an easy testing solution, with reports like the Category Analysis Report saving time by providing a one-click solution for displaying mastery of objectives at the individual, section, and course levels.
- **Connect's At-Risk Student Report** provides a visual indicator a way to close the gap with students lacking engagement.
- **SmartBook 2.0's Most Challenging Learning Objectives Report** helps both students and instructors make data-driven decisions about time spent studying and in the classroom, providing insight on the top content struggles for any given SmartBook 2.0 assignment.
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- **Technical support** (Customer Experience Group) by phone, email, or real-time chat.
- **Customized First-Day-of-Class Resources,** to ensure a smooth start to your term.
- **Digital Faculty Consultant network,** for sharing best practices.