# ADVANCED MARKETING

**FIRST EDITION** 





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# Advanced Marketing

A Marketing Strategy Planning Approach

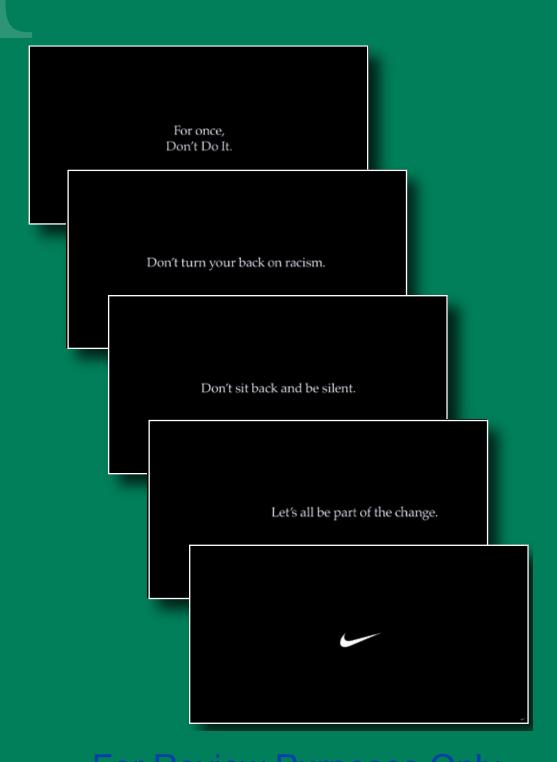
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# CHAPTER ONE-



Nike, Inc.

# Marketing's Value to Consumers, Firms, and Society

When it's time to roll out of bed in the morning, does the Spotify app on your Samsung Galaxy phone play your "Waking Up Happy" playlist, or is your roommate listening to Taylor Swift on her Sonos speaker? Do you throw on your Nike Flyknit shoes and get in a short run before breakfast? Maybe not this morning. You slept in and now you barely have time to throw on your Levi's jeans, shirt from Zara, and Chaco sandals as you race off to class. You are hungry. Will you open your GE refrigerator and choose a Chobani pineapple-flavored Greek yogurt and an Einstein's bagel with Philadelphia Cream Cheese? Or maybe you grab a Chicken Apple Sausage breakfast sandwich at Caribou Coffee in the student union. If you hurry, your roommate can give you a ride to school in her new Ford Fiesta EcoBoost Hybrid, although you could ride your Big Shot Fixie bike or take the bus that the city bought from Mercedes-Benz. So many choices.

When you think about it, you can't get very far into a day without bumping into marketing—and what the whole marketing system does for you. It affects every aspect of our lives—often in ways we don't even consider.

In other parts of the world, people wake up each day to different kinds of experiences. A family in a rural African village may have little choice about what food they will eat or where their clothing will come from. In the world's more economically developed countries, consumers find plenty of choices on store shelves. And if no one buys a particular color, size, or style, then companies stop producing it. So, you may have trouble finding a Chicken Apple Sausage sandwich in Hangzhou, China, where the locals are more likely lined up waiting for GanQiShi's steamed buns.

One brand found around the world is Nike. How has Nike become the choice for so many professional and casual athletes around the world? Is it the more than \$1 billion Nike spends each year for endorsements from star athletes like LeBron James, Naomi Osaka, and Cristiano Ronaldo? Maybe it's the innovations, like Nike's self-lacing sneakers, lightweight Flyknit shoes, and Nike+ software apps. What part do the 24,000 retailers that carry Nike products play? Do Nike's connect with tens of millions of followers on Twitter, Instagram, Facebook, TikTok, and

YouTube build loyal customer relationships? And just how much (if at all) do these marketing strategy decisions affect Nike's sales and profits?

More than 50 years ago, Phil Knight and his college track coach, Bill Bowerman, founded Blue Ribbon Sports (later renamed Nike) to distribute Japanese running shoes. A few years later they were designing, producing, and selling athletic shoes.

Nike took off after signing basketball star Michael Jordan to endorse its basketball shoes. The Air Jordan line took the market by storm. Nike raced further ahead when its advertising agency came up with the "Just Do It!" slogan and an ad campaign that covered television, magazines, and billboards around the world. "Just Do It!" helped carry Nike through the 1990s while profits soared on rising sales aided by low-cost foreign production.

Things haven't always gone smoothly for Nike. In the late 1990s, the company came under attack when it was reported that some of its suppliers used child labor. At first Nike denied responsibility, claiming it couldn't control how its suppliers operated. Public protest showed that society expected more from a large, successful corporation, and Nike began to closely monitor its suppliers' labor practices. Nike's corporate social responsibility guided it to better labor practices and its reputation improved.

More recently, Nike focuses more on its purpose (knowing in the long run profits will follow): "Nike exists to bring inspiration and innovation to every athlete\* in the world. Our Purpose is to move the world forward through the power of sport—breaking barriers and building community to change the game for all. \*If you have a body, you are an athlete." For Nike, everyone is an athlete. Nike's purpose follows from its emphasis on people, planet and play—and makes the world a better place:

 People. Nike's commitment to people is apparent in the first sentence of its Purpose Report: "We invest in the power of people to move the world forward." Nike has long been committed to diversity, equity, and inclusion—in both its employment practices and marketing. Yet its purpose moves it to take this one step further and do its part to end racism around the world. That commitment was tested when riots broke out in Minneapolis after a police officer murdered a Black man named George Floyd. Less than a week later, Nike posted a one-minute video featuring seven brief statements in white text on a black background. The video concluded with a call to action "Let's all be part of the change." The message resonated with most of Nike's core customers, who skew younger and are more likely people of color.

- Planet. Nike has no less commitment to Planet, vowing "To protect the planet, we don't wait for solutions, we create them." Nike recently set an ambitious sustainability goal: to double its sales while halving its environmental impact. Three-quarters of its shoes and apparel already contain some recycled material. The
  - company achieves and exceeds its sustainability targets, including 100 percent renewable energy in the United States and Canada, reducing freshwater use by its textile dyeing and finishing suppliers, and requiring its Tier 1 footwear producers to divert 99.9 percent of manufacturing waste from landfills.
- Play. "Getting kids moving means an active next generation and a stronger future." Nike's "Made to Play" initiative focuses on getting kids all over

the world—regardless of background, gender, ability, or aspiration—playing and involved with sport and play by giving kids opportunities, training coaches, and providing gear.

Nike's commitment to its purpose and its marketing add value for its employees, customers, and investors. Creative employees have something to work for, and customers pay to use Nike products and associate with its values. The company's \$45+ billion in annual sales reward investors with over \$4 billion in net income. But when it comes to athletic clothing and shoes, customers have many choices. If it wants to stay ahead of a strong field of competitors that includes adidas, Under Armour, Skecher, and Chinese upstart Li Ning, Nike must stay dedicated to its purpose, continue to innovate, and stay ahead of its customers' needs and wants.<sup>1</sup>

### LEARNING OBJECTIVES

In this chapter, you'll learn what marketing is all about and why it's important to you as a consumer. We'll also explore why it is so crucial to the success of individual firms and nonprofit organizations and the impact that it has on the quality of life in different societies.

### When you finish this chapter, you should be able to

- 1 know what marketing is and why you should learn about it.
- 2 understand the difference between marketing and macro-marketing.
- 3 know the marketing functions and why marketing specialists including intermediaries and collaborators—develop to perform them.
- 4 understand what a market-driven economy is and how it adjusts the macro-marketing system.
- 5 know what the marketing concept is—and how it should guide a firm or nonprofit organization.
- 6 understand what customer value is and why it is important to customer satisfaction.
- 7 know how social responsibility and marketing ethics relate to the marketing concept.
- 8 understand the important new terms (shown in red).

### Marketing—What's It All About?

LO 1.1

Marketing is more than selling or advertising

Many people think that marketing means "selling" or "advertising." It's true that these are parts of marketing. But marketing is much more than selling and advertising.

How did all those bicycles get here?

To illustrate some of the other important things that are included in marketing, think about all the bicycles being pedaled with varying degrees of energy by bike riders around the world. Most of us don't make our own bicycles. Instead, they are made by firms such as Trek, Specialized, Canyon, and Rad Power Bikes.







Marketing helps make sure that each customer gets the bicycle that best meets their needs. (left): Ariel Skelley/Digital Vision/Getty Images; (middle): Westend61/Getty Images; (right): stockstudioX/E+/Getty Images

Most bikes do the same thing—get the rider from one place to another. But a bike rider can choose from a wide assortment of models. They are designed in different sizes and with or without gears. Off-road bikes have large knobby tires. Kids and older people may want more wheels—to make balancing easier. Some bikes need baskets or even trailers for cargo. Other bikes add batteries to assist the rider. You can buy a basic bike for less than \$100. Or you can spend more than \$5,000 for just a custom frame.

This variety of styles and features complicates the production and sale of bicycles. The following list shows some of the things a manager should do before and after deciding to produce and sell a bike.

- Analyze the needs of people who might buy a bike and decide if they want more or different models.
- 2. Determine how many of these people will want to buy bicycles, where in the world they live, and when they will want to buy.
- 3. Identify competing companies that also produce bikes, what kind they sell, and at what prices.
- 4. Predict the designs of bikes—frame and handlebar styles, derailleurs, types of wheels, brakes, batteries (or not), and other accessories—different customers will want, and decide which of these people the firm will try to satisfy.
- 5. Determine whether to sell bikes directly to consumers or through retailers—and if retailers, which ones should be used.
- 6. Decide how to tell potential customers about the firm's bikes.
- 7. Estimate the prices potential customers are willing to pay for their bikes and if the firm can make a profit selling at those prices.
- 8. Figure out how to provide customer service if a customer has a problem after buying a bike.

The above activities are not part of **production**—actually *making* goods or *performing* services. Rather, they are part of a larger process—called *marketing*—that provides needed direction for production and helps make sure that the right goods and services are produced and find their way to consumers.

You'll learn much more about marketing activities in Chapter 2. For now, it's enough to see that marketing plays an essential role in providing consumers with need-satisfying goods and services and, more generally, in creating customer satisfaction. Simply put, **customer satisfaction** is the extent to which a firm fulfills a customer's needs, desires, and expectations.

### Marketing Is Important to You

# Marketing is important to every consumer

Marketing affects almost every aspect of your daily life. The choices you have among the goods and services you buy, the stores where you shop, the social media you interact with, and the streaming music and video you listen to and watch are all possible because of marketing. In the process of providing all these choices, marketing drives organizations to focus on what it takes to satisfy you, the customer. Most of the things you want or need are available conveniently *when* and *where* you want or need them.

Some courses are interesting when you take them but not directly relevant to your life once they're over. That's not so with marketing—you'll be a consumer dealing with marketing for the rest of your life regardless of what career you pursue. Moreover, as a consumer, you pay for the cost of marketing activities. In advanced economies, marketing costs about 50 cents of every consumer dollar. For some goods and services, the percentage is much higher. It makes sense to be an educated consumer and to understand what you get and don't get from all that spending.

# Marketing will be important to your job

Another reason for studying marketing is that it offers many exciting and rewarding career opportunities. Throughout this book, you will find information about opportunities in different areas of marketing (see especially Appendix C).

If you're aiming for a nonmarketing job, knowing about marketing will help you do your job better. Throughout the book, we'll discuss ways that marketing interacts with other parts of the company—including finance, accounting, human resources, computer information systems, research and development, and more. Furthermore, marketing is important to the success of every organization.

Beyond that, the same basic principles used to sell soap or breakfast cereal are used to "sell" ideas, politicians, healthcare services, environmental sustainability, museums, and even colleges. No matter what job you end up doing, you are very likely to have to understand others' needs, and perhaps persuade people to behave differently or change their minds about something. Doctors and nurses often need to persuade patients to take their medicine and change their eating habits. Managers have to understand people that work with them and convince them to change behaviors to increase their job performance. Marketing principles will help you achieve those goals and maybe help you get your next job.

# A marketing approach can help you get your next job

You will probably be seeking a job sometime soon, offering your services—as an accountant, a salesperson, a computer programmer, a financial analyst, or perhaps a store manager. Or maybe you will be looking for an opportunity with more responsibility or higher pay where you currently work. You will have more success getting what you want when you take a marketing approach and try to figure out how to best satisfy the needs, interests, and desires of a current or prospective employer the same way a business looks at its customers. Much of what you learn about how businesses market their products and services to customers can be applied in the job market. Even your résumé and LinkedIn page are part of a marketing campaign to sell your self to an employer. See Appendix C for more details on how to write your personal marketing plan.

# Marketing affects innovation and standard of living

An even more basic reason for studying marketing is that marketing plays a big part in economic growth and development. One key reason is that marketing encourages research and **innovation**—the development and spread of new ideas, goods, and services. As firms offer new and better ways of satisfying consumer needs, customers have more choices among products, which fosters competition for consumers' money. This competition drives down prices. Moreover, when firms develop products that really satisfy customers, fuller employment and higher incomes can result. The combination of these forces means that marketing has a big impact on consumers' standard of living—and it is important to the future of all nations.<sup>2</sup>







Marketing encourages innovative new goods, services, and ideas. Marketing was important in the rapid development, distribution, and communication around COVID-19 vaccines. Marketing helped Doordash discover that people are willing to pay for food delivery, like "slices on your sofa." And public health professionals use clever advertising to communicate the dangers of texting and driving—an important idea for our society to address. What other innovations can you think of that have helped you, other people, or society?

(left): Marcos del Mazo/LightRocket/Getty Images; (middle): DoorDash, Inc.; (right): Source: The National Road Safety Commission of Ghana

## How Should We Define Marketing?

There are micro and macro views of marketing

In our bicycle example, we saw that a producer of bicycles has to perform many customer-related activities besides just making bikes. The same is true for an insurance company or an art museum. This supports the idea of marketing as a set of activities done by an individual organization to satisfy its customers.

On the other hand, people can't survive on bicycles and art museums alone! In advanced economies, it takes goods and services from thousands of organizations to satisfy the many needs of society. Further, a society needs some sort of marketing system to organize the efforts of all the producers, wholesalers, and retailers required to satisfy the varied needs of all its citizens. So marketing is also an important social process.

We can view marketing in two ways: from a micro view as a set of activities performed by organizations and also from a macro view as a social process. In everyday use when most people talk about marketing, they have the micro view in mind. So that is the way we will define marketing here. However, the broader macro view that looks at the whole production-distribution system is also important, so later we will provide a separate definition and discussion of macro-marketing.

Marketing defined

**Marketing** is the performance of activities that seek to accomplish an organization's objectives by anticipating customer or client needs and directing a flow of need-satisfying goods and services from producer to customer or client. Let's look at this definition.<sup>3</sup>

Applies to profit and nonprofit organizations

Marketing applies to both for-profit and nonprofit organizations. Profit is the primary objective for most business firms. Other types of organizations may seek more members or acceptance of an idea. Customers or clients may be individual consumers, business firms, nonprofit organizations, government agencies, or even foreign nations. Although most customers and clients pay for the goods and services they receive, others may receive them free of charge or at a reduced cost through private or government support.

# More than just persuading customers

Marketing isn't just selling and advertising. Unfortunately, some executives still think of it that way. They feel that the job of marketing is to "get rid of" whatever the company happens to produce. In fact, the aim of marketing is to identify customers' needs and meet those needs so well that the product almost "sells itself." This is true whether the product is a physical good, a service, or even an idea. If the whole marketing job has been done well, customers don't need much persuading. They should be ready to buy. And after they buy, they'll be satisfied and ready to buy the same way the next time.

# Begins with customer needs and wants

Marketing should begin with potential customer needs and wants—not with the production process. Marketing should try to anticipate needs and wants. And then marketing, rather



Marketing aims to identify customer needs and then meet those needs. NoDoz knows that at times, some people need to make sure they don't fall asleep.

Source: Lii' Drug Store Products, Inc.

than production, should determine what goods and services are to be developed—including decisions about product features; design and packaging; prices or fees; transporting and storing policies; advertising and sales tactics; and, after the sale, installation, customer service, warranty, and perhaps even disposal and recycling policies.

Consider France's Sodebo, maker of fresh packaged meals (sandwiches and pasta) sold in grocery stores. Sodebo's consumer research found some customers had an unmet need: they wanted to satisfy midday hunger in a healthy way. The research showed that whereas busy consumers were willing to buy a high-quality to-go salad, they found current choices skimpy and unsatisfying. Sodebo developed new salads that were convenient, delicious, and filling. On the way to market, Sodebo tested different recipes and packages to find what consumers and retailers liked best. By starting with customer needs, Sodebo's Salade & Compagnie line of 10 different boxed salads became a best seller.<sup>4</sup>

### Does not do it alone

This does not mean that marketing should try to take over production, accounting, and financial activities. Rather, it means that marketing—by interpreting customers' needs—should provide direction for these activities and try to coordinate them.

# Marketing involves exchanges

The idea that marketing involves a flow of need-satisfying offerings from a producer to a customer implies that there is an exchange of the need-satisfying offering for something else, such as the customer's money. Marketing focuses on facilitating exchanges. In fact, marketing doesn't occur unless two or more parties are willing to exchange something for something else. For example, in a pure subsistence economy—where each family unit produces everything it consumes—there is no need to exchange goods and services and no marketing is involved. (Although each producer—consumer unit is totally self-sufficient in such a situation, the standard of living is typically relatively low.)

# Builds a Relationship with the customer

Keep in mind that a marketing exchange is usually part of an ongoing relationship, not just a single transaction. Rather, the goal is continuing sales and an ongoing *relationship* with the customer. In the future, when the customer has the same need again—or some other need that the firm can meet—other sales will follow. A consumer does not visit her local Shell station once, but perhaps every week or two—as long as Shell's gas, coffee, or service satisfies her, she is likely to keep going to the same gas station. This *flow* of need-satisfying goods and services builds a long-lasting relationship that benefits both the firm and the customer.

The focus of this text management-oriented micro-marketing Because you are probably preparing for a career in management, the main focus of this text will be on managerial marketing, or the micro view of marketing. We will see marketing through the eyes of the marketing manager.

The marketing ideas we will be discussing throughout this text apply to a wide variety of situations. They are important for new ventures started by one person as well as big

# What's Next? Marketing to developing countries' rural poor

In recent decades, India has experienced rapid economic growth. Many of its citizens have more income and enjoy a higher quality of life. That helps explain why Unilever's Indian subsidiary, Hindustan Unilever Limited (HUL), has worked hard to build a 40 percent share of the Indian market with its product lines that include soaps, toothpaste, and packaged foods.

HUL initially focused on India's cities, where customers with money were concentrated. Yet almost two thirds of India's 1.2 *billion* people live in rural areas; about half have an income of less than \$5 a day. Conventional wisdom suggests rural villagers have too little money to be an attractive market. And it's expensive to distribute products to far-flung villages.

But that has changed. HUL's marketing managers decided that Indian villagers represent an opportunity for growth—and that villagers might value the soaps, toothpaste, and packaged food products that HUL successfully sells in urban areas of India.

HUL tailored a new marketing strategy to this target market. Many products are repackaged in "sachets"—small bags that contain a one- or two-day supply. HUL prices the sachets so that villagers can afford them—and that in turn gives customers a chance to try quality products that were previously priced out of their reach.

HUL created its "Shakti Ammas" (women entrepreneurs) program to communicate the benefits of its products and distribute them in remote rural areas. The program sets up rural women as home-based distributors and sales agents. These women stock HUL products in their homes and go door-to-door to sell them. They also organize meetings in local schools and at village fairs to educate fellow villagers on health and hygiene issues.

This program continues to evolve. To provide wider distribution, male entrepreneurs (Shaktimaan) were recruited. Many use bikes and cover five or six nearby villages—far more than the Shakti Ammas previously covered on foot. A partnership with an adhesive company gives Shakti entrepreneurs another product line to sell while on their rounds.

When COVID-19 threatened the program, HUL's philosophy of "Doing Well by Doing Good" kicked into high gear. HUL's regional sales team got ahead of and minimized potential supply chain problems with more effective planning and new ordering processes. HUL gave its rural salesforce training and kits to support hygienic practices, along with COVID-19 care packages that included medical insurance.

Today, more than 136,000 micro-entrepreneurs operate in 162,000 villages and reach over 4 million rural households across India. The Shakti have a new source of income and are learning about business—while bringing the health benefits of improved hygiene to rural villages. And, of course, HUL hopes to clean up with a new source of growth. To see and hear more about Project Shakti, check out this video: https://youtu.be/lwBbr0SP318.

Through its marketing, HUL helps deliver a better quality of life to millions of India's poor; HUL has adapted the program to other markets including Columbia, Ethiopia, and Egypt. Some of Unilever's competitors developed similar programs around the world. Together, such changes create a better world for hundreds of millions of people.<sup>5</sup>

How do we see parts of the definition of marketing represented in this case study? What customer needs and wants does Project Shakti address? How does it build a relationship between HUL and the customer?

corporations, in domestic and international markets, and regardless of whether the focus is on marketing physical goods, services, or an idea or cause. They are equally critical whether the relevant customers or clients are individual consumers, businesses, or some other type of organization. For editorial convenience, we will sometimes use the term *firm* as a shorthand way of referring to any type of organization, whether it is a business, political party, a religious organization, a government agency, or the like. However, to reinforce the point that the ideas apply to all types of organizations, throughout the book we will illustrate marketing concepts in a wide variety of situations.

One of the challenges for many of today's consumer products companies involves addressing the needs and wants of a growing market in developing countries. Makers of many health and beauty products, for example, have found a potential market with the rural poor. For an example of how effective micro-marketing can be used to appeal to this growing market, read *What's Next?* Marketing to developing countries' rural poor.

Although marketing within individual firms (micro-marketing) is the primary focus of the text, marketing managers must remember that their organizations are just small parts of a larger macro-marketing system. Therefore, next we will briefly look at the macro view of marketing. Then we will develop the managerial view more fully in later chapters.

### Macro-Marketing ·

LO 1.2

Emphasis is on whole system

Producers and consumers have different aims

Marketing functions help narrow the gap

LO 1.3

**Macro-marketing** is a social process that directs an economy's flow of goods and services from producers to consumers in a way that effectively matches supply and demand and accomplishes the objectives of society.<sup>6</sup>

With macro-marketing we are still concerned with the flow of need-satisfying goods and services from producer to consumer. However, the emphasis with macro-marketing is not on the activities of individual organizations. Instead, the emphasis is on *how the whole marketing system works*. This includes looking at how marketing affects society and vice versa.

Every society needs a macro-marketing system to help match supply and demand. Different producers in a society have different objectives, resources, and skills. Likewise, not all consumers share the same needs, preferences, and wealth. In other words, within every society there are both heterogeneous (highly varied) supply capabilities and heterogeneous demands for goods and services. The role of a macro-marketing system is to effectively match this heterogeneous supply and demand *and* at the same time accomplish society's objectives.

An effective macro-marketing system delivers the goods and services that consumers want and need. It gets products to them at the right time, in the right place, and at a price they're willing to pay. It keeps consumers satisfied after the sale and brings them back to purchase again when they are ready. That's not an easy job—especially if you think about the variety of goods and services a highly developed economy can produce and the many kinds of goods and services consumers want.

Effective marketing in an advanced economy is difficult because producers and consumers are often separated in several ways. For example, a producer wants to make its products in large quantities, but consumers only want to buy one or a few at a time. A producer usually wants to simplify production and make a few types of products. Think about the dairy farmer that wants to create different kinds of milk-and probably a lot of it at one time. A baker specializes to produce different kinds of bread. On the other hand, consumers usually want to go to a single store for their milk, bread, and many other products.

The purpose of a macro-marketing system is to overcome these different aims. The "universal functions of marketing" help solve these problems.

The universal functions of marketing are buying, selling, transporting, storing, standardization and grading, financing, risk taking, and market information. They must be performed in all macro-marketing systems. *How* these functions are performed—and *by whom*—may differ among nations and economic systems. But they are needed in any macro-marketing system. Let's take a closer look at them now.

Any kind of exchange usually involves buying and selling. The **buying function** means looking for and evaluating goods and services. The **selling function** involves promoting the product. It includes the use of personal selling, advertising, customer service, and other direct and mass-selling methods to tell customers about the product. This is probably the most visible function of marketing.

The **transporting function** means the movement of goods from one place to another. The **storing function** involves holding goods until customers need them.

Acai berries are popular in the United States as a supplement and as an ingredient in juices and smoothies. A range of marketing functions are needed to overcome the distance between the Central and South American farms, where the fruit is grown and harvested from acai palms, and U.S. consumers. Consider the process: standardizing and grading the berries, transporting and storing the fruit and its juice, financing production of the acai end products, as well as the buying and selling functions; all are necessary to bring a tasty fruit smoothie to a thirsty lady. (top-left): Moment/Getty Images; (bottom-left): Brasil2/Getty Images; (right): Zjuzjaka/Shutterstock







**Standardization and grading** involve sorting products according to size and quality. This makes buying and selling easier because it reduces the need for inspection and sampling. **Financing** provides the necessary cash and credit to produce, transport, store, promote, sell, and buy products. **Risk taking** involves bearing the uncertainties that are part of the marketing process. A firm can never be sure that customers will want to buy its products. Products can also be damaged, stolen, or outdated. The **market information function** involves the collection, analysis, and distribution of all the information needed to plan, carry out, and control marketing activities, whether in the firm's own neighborhood or in a market overseas.

Producers, consumers, and marketing specialists perform functions

Producers and consumers sometimes handle some of the marketing functions themselves. However, exchanges are often easier or less expensive when a marketing specialist performs some of the marketing functions. For example, both producers and consumers may benefit when an **intermediary**—someone who specializes in trade rather than production—plays a role in the exchange process. In Chapters 10, 11, and 12, we'll cover the variety of marketing functions performed by the two basic types of intermediaries: retailers and wholesalers. Retailers help all of us by gathering a similar variety of products in one place, for example a T-Mobile store carries different brands of cell phones and cases in one place. Although wholesalers and retailers must charge for services they provide, this charge is usually offset by the savings of time, effort, and expense that would be involved without them. So these intermediaries make the whole macro-marketing system more efficient and effective.

A wide variety of other marketing specialists may also help smooth exchanges among producers, consumers, or intermediaries. These specialists are **collaborators**—firms that facilitate or provide one or more of the marketing functions other than buying. These collaborators include advertising agencies, marketing research firms, independent product-testing laboratories, Internet service providers, public warehouses, transporting firms, communications companies, and financial institutions (including banks). Walmart and Google recently partnered to allow customers to shop by voice with Google Assistant. The collaboration helps both parties advance their marketing goals.

Universal marketing functions can be shifted and shared

From a macro-marketing viewpoint, the marketing functions must be performed by someone—an individual producer or consumer, an intermediary, a marketing collaborator, or, in some cases, even a nation's government. Most functions cannot be eliminated.

Intermediaries and collaborators develop and offer specialized services that facilitate exchange between producers and consumers. Home Depot is a collaborator that facilitates the selling, storing, and transporting functions for producers that make products for professional contractors. Home Depot integrates these into its website in order to deliver "An enhanced online experience for Pro Xtra members." Mailchimp provides an "All-in-One Marketing Platform" that helps its customers to better understand "what's working" and what's not.

(left): The Home Depot, Inc.;

(right): Mailchimp

AN ENHANCED
ONLINE EXPERIENCE
FOR PRO XTRA MEMBERS

The Pro Online Experience features expanded online tools to help manage and grow your business



However, not all goods and services require all the functions at every level of their production.

Exhibit 1-1 shows two examples of the universal functions of marketing in two markets. One example shows how phone cases (using Otterbox) get to customers with the help of intermediaries like Best Buy and collaborators including shipping companies, banks, and online reviewers. A customer engages in the buying function-deciding which case to purchase. But Best Buy also makes buying decisions when it decides which cases to stock and display in its stores. Otterbox and Best Buy might use their website or advertise to promote various cases, reflecting the selling function. Transporting and storing engage shipping companies, as well as Otterbox and Best Buy. The standardization and grading might be done on Otterbox's website or at Best Buy stores—where products organized by the model of phone ease the buying and selling processes. Online reviewers might also aid in this process by describing their experience with the caseperhaps commenting on durability or attractiveness. Financing may come from Otterbox, Best Buy, or their respective banks which, for example, can provide funding to manufacture cases ahead of a new phone release. Producing new cases ahead of a new phone release creates uncertainty and therefore risk-taking for Otterbox. Finally, Otterbox and its marketing research firms may gather and disseminate information to collaborators and intermediaries.

The airline travel industry has many similarities but also notable differences from the phone case market (see Exhibit 1–1). You will note that the universal functions may be performed by the producer, customer, collaborator or intermediaries; in Exhibit 1–1 each group is shown in a different font (normal, **bold**, *italics*, and all CAPS) to show how universal functions are performed by different parties. One difference is that because air travel is not a physical good, it requires no transportation or storage (although its planes would). We also see how this industry has government collaborators, such as regulatory oversight from the Federal Aviation Association (in the United States and similar agencies in other countries) which gather and disseminates information (including on-time performance for example) that may be used by customers.

Regardless of who performs the marketing functions, in general they must be performed effectively and efficiently or the performance of the whole macro-marketing system will suffer. With many different possible ways for marketing functions to be performed in a macro-marketing system, how can a society hope to arrive at a combination that best serves the needs of its citizens? To answer this question, we can look at the role of marketing in different types of economic systems.

**Exhibit 1–1** Examples of the Universal Functions of Marketing Applied in Two Markets

Industry	Phone cases	Air travel		
Producer (example)	Otterbox (phone case)	Southwest Airlines		
Customer (example)	Smartphone owner	Traveler		
Representative intermediary	Retailers (Best Buy, Amazon)	Travel agent (Expedia)		
Possible collaborators	Shipping company, bank, marketing research firm, advertising agency, online reviewers	Marketing research firm, bank, Federal Aviation Administration, online reviewers		
Universal functions*				
Buying function	Smartphone owner; BEST BUY	Traveler		
Selling function	Otterbox; BEST BUY	Southwest Airlines; EXPEDIA		
Transporting function	Shipping company, Otterbox	This service doesn't require transportation.		
Storing function	Otter Products (warehouse); BEST BUY (stores and warehouses)	This service doesn't require storing.		
Standardization & grading	Otterbox; Best Buy; online reviewers	Southwest Airlines; FAA provides on-time data		
Financing	Bank	Bank		
Risk-taking	Otterbox	Southwest Airlines		
Market information	Otterbox, marketing research firm	Marketing research firm, FAA provides on-time data		
*Producer shown in normal font, <b>customer in bold</b> , collaborators in italics, INTERMEDIARIES in all CAPS.				

### The Role of Marketing in Economic Systems

LO 1.4

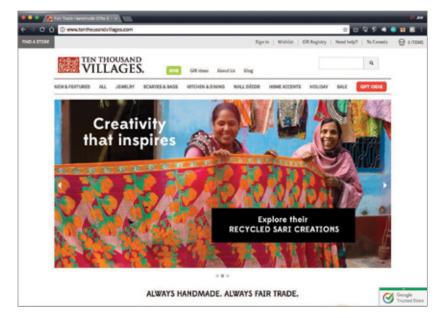
All societies must provide for the needs of their members. Therefore, every society needs some sort of **economic system**—the way an economy organizes to use scarce resources to produce goods and services and distribute them for consumption by various people and groups in the society.

How an economic system operates depends on a society's objectives and the nature of its political institutions.<sup>7</sup> But regardless of what form these take, all economic systems must develop some method—along with appropriate economic institutions—to decide what and how much is to be produced and distributed by whom, when, to whom, and why.

Government officials may make the decisions

Forty or 50 years ago, many countries' economies—including China's and Russia's—were directed by government officials. In a **command economy**, government officials decide what and how much is to be produced and distributed by whom, when, to whom, and why. These decisions are usually part of an overall government plan, so command economies are also called "planned" economies. It sounds good for a government to have a plan, but as a practical matter, attempts by a government to dictate an economic plan often don't work out as intended. Countries with command economies often had little variety, so consumers had few choices. And because the government struggled to forecast what consumers would want, there were often shortages of goods and services. As a result, consumers were often dissatisfied with the systems. Over time, most planned economies transitioned to a system that left decision making to customers and producers.

Artists and craftworkers in developing economies do not often have a large local market for their products. Ten Thousand Villages operates retail stores and an e-commerce website that help artisans reach more customers and promote economic development in their communities. Source: Ten Thousand Villages



# A market-directed economy adjusts itself

In a market-directed economy, the individual decisions of the many producers and consumers make the macro-level decisions for the whole economy. In a pure market-directed economy, consumers make a society's production decisions when they make their choices in the marketplace. They decide what is to be produced and by whom—through their dollar "votes."

In a market-directed economy, consumers choose from a range of options that may meet their needs. They are not forced to buy any goods or services, except those judged as good for society—things such as national defense, police and fire protection, roads, public schools, and public health services. These are provided by the community—and citizens' taxes pay for them.

Similarly, producers are free to do whatever they wish—provided that they stay within the rules of the game set by government *and* receive enough dollar "votes" from consumers. If they do their job well, they earn a profit and stay in business. But profit, survival, and growth are not guaranteed.

In a market-directed economy, the system is governed by the words and actions of consumers and citizens, with the government setting the boundaries.

Prices customers pay determine a measure of value Prices in the marketplace are a rough measure of how society values particular goods and services. If consumers are willing to pay the market prices, then they are getting at least their money's worth. If prices and profits are high, then consumers either stop buying or competitors enter the market. Similarly, the cost of labor and materials is a rough measure of the value of the resources used in the production of goods and services to meet these needs. New consumer needs that can be served profitably—not just the needs of the majority—will probably be met by some profit-minded businesses.

Customers use "voices" to gain power in the market

The rise of digital and social media gives customers more power in the market. These days if customers feel they have been wronged by a company, they can share their dissatisfaction with more than just immediate friends and family. A review on a website or a social media post may be read by hundreds or thousands of other people.

When musician Dave Carroll's guitar was damaged by United Airlines—and baggage handlers and the airline refused to compensate him—Carroll's band made a YouTube video. The funny video, "United Breaks Guitars," went viral, millions saw it, and lo and behold, United offered Carroll a new guitar.<sup>8</sup>

Not every customer will make a video of a bad experience, but many will make social media posts—or "like" or pass along someone else's story. Prospective customers often search the web to learn about companies before buying. They can easily find positive

and negative information on the internet, giving firms an extra incentive to play by the socially accepted rules of the game.

### Public interest groups

In many Western economies, public interest groups and consumers provide an additional check on a market-directed economy. For example, Clean Creatives is a group of people working in advertising, public relations, and marketing that pressures firms in this industry not to work for fossil fuel companies. Clean Creatives points out that many gas and oil firms make false or misleading advertising claims about their sustainability efforts.<sup>9</sup>

# Government enforces the "rules of the game"

The American economy and most other Western economies are mainly market-directed—but not completely. Society assigns supervision of the system to the government. For example, besides setting and enforcing the "rules of the game," government agencies control interest rates and the supply of money. They also set import and export rules that affect international competition, regulate radio and TV broadcasting, sometimes control wages and prices, and so on. Government also tries to be sure that property is protected, contracts are enforced, individuals are not



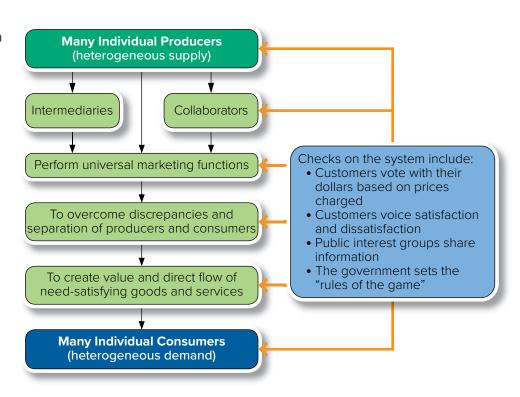
Public interest groups can influence the macro-marketing system. For example, the Partnership for Healthy Mouths Healthy Lives wants parents to know how important it is for their kids to brush their teeth for a full two minutes twice a day. Ad Council

exploited, no group unfairly monopolizes markets, advertising is honest, and producers deliver the kinds and quality of goods and services they claim to be offering.

Macro-Marketing systems adjust over time

So far, we have described how a market-directed macro-marketing system adjusts to become more effective and efficient by responding to customers and public interest groups and staying within government regulations (see Exhibit 1-2). As you read this

Exhibit 1–2 Model of a Market-Directed Macro-Marketing System



book, you'll learn more about how marketing affects society and vice versa. You'll also learn more about specific marketing activities and be better informed when drawing conclusions about how fair and effective the macro-marketing system is. For now, however, we'll return to our general emphasis on a managerial view of the role of marketing in individual organizations.

### Marketing's Role Has Changed a Lot over the Years

It's clear that marketing decisions are very important to a firm's success. But marketing hasn't always been so complicated. In fact, understanding how marketing thinking has evolved makes the modern view clearer, so we will discuss five stages in marketing evolution: (1) the simple trade era, (2) the production era, (3) the sales era, (4) the marketing department era, and (5) the marketing company era. We'll talk about these eras as if they applied generally to all firms—but keep in mind that *some managers still have not made it to the final stages*. They are stuck in the past with old ways of thinking.

# Simple trade era to production era

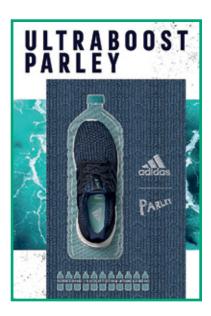
When societies first moved toward some specialization of production and away from a subsistence economy where each family raised and consumed everything it produced, traders played an important role. Early "producers for the market" made products that were needed by themselves and their neighbors. As bartering became more difficult, societies moved into the **simple trade era**—a time when families traded or sold their "surplus" output to local distributors. These specialists resold the goods to other consumers or other distributors. This was the early role of marketing—and it is still the focus of marketing in many less-developed areas of the world. In fact, even in the United States, the United Kingdom, and other more advanced economies, marketing didn't change much until the Industrial Revolution brought larger factories more than 200 years ago.

# From the production to the sales era

From the Industrial Revolution until the 1920s, many companies were in the production era—some still are today. The **production era** is a time when a company focuses on production of a few specific products—perhaps because few of these products are available in the market. "If we can make it, it will sell" is management thinking characteristic of the production era. Because of product shortages, many nations—including some of the postcommunist republics of eastern Europe—continue to operate with production era approaches.

By about 1930, most companies in the industrialized Western nations had more production capability than ever before. Now the problem wasn't just to produce—but to beat

#M4BW In the past, developing new products was often confined to an organization's research and development group. This group brought innovations to sales and marketing to sell. That has all changed at companies like Adidas. Adidas marketing managers have a pulse on its customers' wants and needs. Many of its core customers care about the environment and are concerned about the high level of plastic in the oceans. Adidas's sustainability, marketing, and research & development departments teamed up with Parley, a nonprofit with the mission of ending the destruction of oceans. Together, they developed new products, including running shoes made from ocean plastic. Companies operating in the marketing company era realize innovations developed by a whole-company (and sometimes beyond) are more successful in today's world. Adidas and Parley are proud that each shoe "prevents approximately 11 plastic bottles from entering our oceans." Adidas AG



the competition and win customers. This led many firms to enter the sales era. The sales era is a time when a company emphasizes selling because of increased competition.

To the marketing department era

For most firms in advanced economies, the sales era continued until at least 1950. By then, sales were growing rapidly in most areas of the economy. The problem was deciding where to put the company's effort. Someone was needed to tie together the efforts of research, purchasing, production, shipping, and sales. As this situation became more common, the sales era was replaced by the marketing department era. The marketing department era is a time when all marketing activities are brought under the control of one department to improve short-run policy planning and to try to integrate the firm's activities.

To the marketing company era

Since 1960, most firms have developed at least some managers with a marketing management outlook. Many of these firms have even graduated from the marketing department era into the marketing company era. The marketing company era is a time when, in addition to short-run marketing planning, marketing people develop long-range plans—sometimes five or more years ahead—and the whole-company effort is guided by the marketing concept.

## What Does the Marketing Concept Mean?

LO 1.5

The marketing concept means that an organization aims *all* of its efforts at satisfying its *customers*—at a *profit*. The marketing concept is a simple but very important idea.

The marketing concept is not a new idea—it has been around for a long time. But some managers show little interest in customers' needs. These managers still have a **production orientation**—making whatever products are easy to produce and *then* trying to sell them. They think of customers existing to buy the firm's output rather than of firms existing to serve customers and—more broadly—the needs of society. <sup>10</sup>

Well-managed firms have replaced this production orientation with a marketing orientation. A marketing orientation means trying to carry out the marketing concept. Instead of just trying to get customers to buy what the firm has produced, a marketing-oriented firm tries to offer customers what they need.

As shown in Exhibit 1-3, the definition of the marketing concept requires three basic

Exhibit 1–3
Organizations with a
Marketing Orientation
Carry Out the Marketing
Concept



ideas: (1) customer satisfaction, (2) a total company effort, and (3) profit (and/or other measures of long-term success)-not just sales-as an objective. Each of these ideas warrant further discussion.

**Customer satisfaction** quides the whole system

The whole company works together to

satisfy customers

Survival and success require a profit

"Give the customers what they need" seems so obvious that it may be hard for you to see why the marketing concept requires special attention. However, people don't always do the logical thing-especially when it means changing what they've done in the past. When customers have choices, they choose companies that best meet their needs, desires, and expectations. They purchase again from these companies, and they tell their friends about the great experience. This all starts with customer satisfaction.

Ideally, all managers should work together as a team. Every department may directly or indirectly impact customer satisfaction. But some managers tend to build "fences" around their own departments. There may be meetings to try to get them to work together-but they come and go from the meetings worried only about protecting their own turf.

We use the term production orientation as a shorthand way to refer to this kind of narrow thinking-and lack of a central focus-in a business firm. But keep in mind that this problem may be seen in sales-oriented sales representatives, advertising-oriented agency people, finance-oriented finance people, directors of nonprofit organizations, and so on. It is not a criticism of people who manage production. They aren't necessarily any more guilty of narrow thinking than anyone else.

The fences come down in an organization that has accepted the marketing concept. There may still be departments because specialization often makes sense. But the total system's effort is guided by satisfying customers' needs and wants-instead of what each department would like to do. The marketing concept provides a guiding focus that all departments adopt. It must be a philosophy of the whole organization, not just an idea that applies to the marketing department.

Firms must satisfy customers. But keep in mind that it may cost more to satisfy some

needs than any customers are willing to pay. Or it may be much more costly to try to attract new customers than it is to build a strong relationship with-and encourage repeat purchases fromexisting customers. So profit-the difference between a firm's revenue and its total costs—is the bottom-line measure of the firm's success and ability to survive. It is the balancing point that helps the firm determine what needs it will try to satisfy with its total (sometimes costly!) effort.

Profit, revenues, and costs are examples of

#M4BW While profit is needed to continue operations long-term, nonprofit organizations, like the United Nations World Food Programme (WFP), often measure success though impact. This organization raises money to deliver food assistance in emergencies and to improve nutrition and resilience in disadvantaged parts of the world. WFP developed a smartphone app that allows people to "share the meal" with hungry children. Each time a user taps the gold medallion, they donate \$0.50, and feed one child for a day. Because the app makes it more convenient to donate, the WFP has lowered its costs and donated more than 10 million meals, with many more shared each day. Donors benefit by feeling hope and affiliation, while contributing to make the world a better place. Can you name other examples of nonprofits using marketing to solicit donations or advance their cause?

Source: World Food Program



### Marketing Analytics in Action: Revenue, Cost, and Profit

Marketing managers pay close attention to profit—that also means monitoring revenues and costs. And whereas marketing managers want to know a company's overall profits, they are also likely to examine revenues, costs, and profits for individual products, perhaps in different geographic markets. This suggests some simple metrics that can be calculated with the following formulas:

- Revenue = Price × Quantity sold
- Profit = Revenue Cost

To better understand how a marketing manager might use these numbers, let's look at a simple example. Julie Tyler is a college student in charge of fundraising for a student organization. Last year the group successfully sold T-shirts to raise money and awareness for the group. They made 250 T-shirts for \$12 each and sold them at a price of \$20 per T-shirt. This year Julie wants to buy a higher-quality shirt that will cost \$15, and she believes she can sell them for \$30. However, at the higher price she expects to sell only 200 shirts.

- 1. Calculate the profits the group earned last year.
- 2. Calculate the profits Julie would earn this year using these prices and assuming her sales projections are accurate.
- 3. What else could Julie do to increase profits?

marketing metrics which refer to numeric data that allow marketing managers to evaluate performance, often against a set target or goal.<sup>11</sup> At a basic level, marketing managers use these metrics to calculate how well a strategy performs. For example, consider a student who wants to sell T-shirts on campus to support a student organization. The student could estimate profits in advance and then evaluate the profits later. The Marketing Analytics in Action: Revenue, Cost, and Profit exercise describes this in more detail.

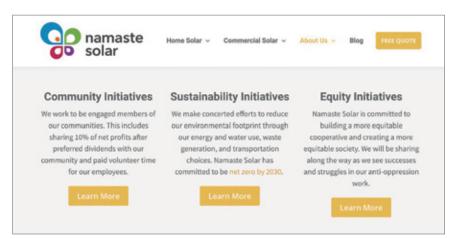
# Nonprofits have other measures of success

As with a business, a nonprofit must take in as much money as it spends or it won't survive. However, a nonprofit organization does not measure "profit" in the same way as a firm, and its key measures of long-term success are also different. The YMCA, colleges, symphony orchestras, and the United Way, for example, all seek to achieve different objectives and need different measures of success. When everyone in an organization agrees to *some* measure(s) of long-term success, it helps the organization focus its efforts. Most nonprofit organizations have defined the way they hope to make the world a better place.

# Many organizations go beyond profit

Even many for-profit businesses have measures that go beyond profits alone. Many organizations explicitly consider a **triple bottom line**—an organization's economic, social, and environmental outcomes—as a measure of long-term success. *Profit* is the

Namaste Solar puts solar panels on homes and businesses. The company operates with a triple bottom line. While Namaste Solar requires a profit to continue in business, it also measures its impact on people (community and equity initiatives) and planet (sustainability initiatives). Namaste Solar's customers and employees appreciate its triple bottom line orientation. What would appeal to you about working for a company that had a triple bottom line? Source: Namaste Solar



economic outcome. *Social* refers to how the company's business activities affect its employees and people in the communities where it operates. The third bottom line considers *environmental responsibility*, usually seeking to at least not harm the natural environment. Together, these are sometimes referred to as measures of people, planet, and profit.<sup>12</sup>

# From triple bottom line to purpose orientation

Focusing on a triple bottom line gives some firms a broader perspective on their business. These firms recognize a reason for being extends beyond simply making a profit. Firms practicing a **purpose orientation** focus on an organization's reason for being that extends beyond profit and creates value for stakeholders, including customers, employees, suppliers, investors, and communities. The purpose is the "why" the firm exists. Purpose incorporates beliefs and values into the core business of the organization. The purpose should be comprehensive enough to resonate across stakeholders and can inspire loyalty from customers, employees, and suppliers. The purpose guides employee decisions and behavior while also clearly communicating to other stakeholders the company's values. It shows the company's larger objective which drives what they do.<sup>13</sup>

Patagonia is often referenced as a purpose-driven firm. The outdoor clothing company claims it is "in business to save the planet." This purpose provides direction or a "north star" for employees in all parts of the organization. Following that purpose leads to advertising campaigns like "Don't buy this jacket" which discouraged customers from buying Patagonia products, directing them to repair them instead. It also means that Patagonia publicly supports legislators who advocate more sustainable policies. This commitment is something that Patagonia employees rally behind—they work harder and are more productive because they see their work contributing to more than just company profits. Employees earn more than a paycheck; they also earn a sense that they are contributing to something important. Many customers feel the same. They know when they buy (and wear) Patagonia clothing, they help "save the planet." Consequently, the Patagonia brand appeals to customers with similar values. Investors and suppliers also see this value and make extra efforts to work with Patagonia.<sup>14</sup>

Other companies have a different purpose orientation. For example, Tesla's stated purpose is to "accelerate the world's transition to sustainable energy"—leading the company to focus on electric vehicles, solar panels, and battery storage. Personal care brand Dove's commitment "to helping all women realize their beauty potential" naturally leads to advertisements featuring women of all shapes and sizes.

Adoption of the marketing concept is not universal

The marketing concept may seem obvious, but it is easy to maintain a production-oriented way of thinking. Producers of industrial commodities such as steel, coal, and chemicals have tended to remain production-oriented in part because buyers see little difference among competitors. Some industries with limited competition, including electric utilities and cable television providers, have also been slower to adopt the marketing concept. When an industry gets competitive, consumers have choices and flock to those that deliver customer satisfaction. This provides an incentive for more firms to practice the marketing concept.<sup>15</sup>

Adopting a purpose orientation is an even greater challenge, but, as we have seen, some companies are doing that as well.Exhibit 1-4 shows some differences in outlook across adopters of a production, marketing, or purpose orientation. Throughout the rest of this textbook, we will point out how firms find greater success with a marketing or purpose orientation.

## The Marketing Concept and Customer Value -

LO 1.6

Take the customer's point of view

A manager who adopts the marketing concept sees customer satisfaction as the path to profits. To better understand what it takes to satisfy a customer, it is useful to take the

**Exhibit 1–4** Some Differences in Outlook Between Adopters of a Production, Marketing, or Purpose Orientation

Торіс	<b>Production Orientation</b>	Marketing Orientation	Purpose Orientation
Attitudes toward customers	Customers should be glad we exist, trying to cut costs and bringing out better products	Customer needs determine company plans	Customer, employee, and community needs determine company plans
Attitude toward employees	Minimize labor costs—employees are replaceable	All employees should be concerned with the customer	A purpose engages employees and increases their productivity and attention to customers
Product offering	Company sells what it can make	Company makes what it can sell	Company follows its purpose <i>and</i> makes what it can sell.
Role of marketing research	To determine customer reaction, if used at all	To determine customer needs and how well company is satisfying them	To determine customer and employee needs and how well the company satisfies each
Interest in innovation	Focus is on technology and cost cutting	Focus is on locating new opportunities	Focus on new opportunities for making a greater impact on the company's purpose
Customer service	An activity required to reduce customer complaints	Satisfy customers after the sale and they'll come back again	Actively seek to satisfy customer needs beyond the core product offering
Focus of advertising	Product features and how products are made	Need-satisfying benefits of goods and services	Advertising communicates the company's purpose to customers and employees
Relationship with customer	Relationship ends when a sale is made	Customer satisfaction before and after the sale leads to profitable long- term relationships	Customers are loyal to the company because of its product <i>and</i> its commitment to a greater purpose
Costs	Keep costs as low as possible	Eliminate costs that do not give value to the customer	Eliminate costs that do not give value to customers or advance company purpose

customer's point of view.

A customer may look at a market offering from two perspectives. One deals with the potential benefits of that offering; the other concerns what the customer has to give up to get those benefits. Consider a student who has just finished an exam and is thinking about grabbing a sandwich from Subway. Our hungry student may simply be seeking a quick lunch before their next exam, another punch on their loyalty card, or just a convenient snack to eat while talking about that exam with classmates. Clearly, different needs are associated with these different benefits. The cost of getting these benefits would include the price of the sandwich, but there might be other nonmonetary costs. For example, how difficult it is to find parking is a convenience cost. Slow service could be an aggravation.

# Customer value reflects benefits and costs

As this example suggests, both benefits and costs can take many different forms. They also may vary depending on the situation. However, it is the *customer's view* of the various benefits and costs that is important. We want to repeat this important distinction: it is the *customer's view* of costs and benefits that is important. A company may want to offer a more fun atmosphere at its sandwich shop—but whether it succeeds depends on the customer's perception.

This leads us to the concept of **customer value**—the difference between the benefits a customer sees from a market offering and the costs of obtaining those benefits.

Exhibit 1–5 Customer Value Equals Benefits Minus Costs

Customer Value = Benefits

Examples of different types of benefits

### Functional

- Save time
- Simplify
- Provide information
- Reduce cost

- Provide fun/entertainment
- Lower anxiety
- Offer superior design/aesthetics
- Provide rewards in some form

### Life-changing

- Give hope
- Offer motivation
- Provide sense of affiliation/ belonging

### World-changing

 Feelings of contributing to making the world a better place.

Costs

Examples of different types of costs

### Monetary

- Money
- Interest rate
- Fees

### Inconvenience

- Time delay to receive the benefit
- Effort required to receive benefit

Exhibit 1-5 shows the wide range of different types of benefits; for example functional benefits could save a customer time or effort, emotional benefits might deliver fun and entertainment or design and aesthetics, life-changing benefits could increase motivation or feelings of belonging, and world-changing benefits occur when a purchase impacts society—perhaps by purchasing sustainable products. 16

Exhibit 1-5 also recognizes costs. Some people think that higher customer value comes from a low price. But that may not be the case at all. A good or service that doesn't meet a customer's needs results in low customer value, even if the price is very low. A high price may be more than acceptable when it obtains the desired benefits. Let's think about a more upscale coffee shop, like Starbucks. You can get a cup of coffee for a much lower price, but Starbucks offers more than just a cup of coffee.

Our definition of customer value might help you start thinking about how Starbucks could offer more customer value. Starbucks probably needs to start by providing a greattasting cup of coffee-but what else can increase customer value? Although Starbucks could easily increase value by lowering prices, it prefers to seek out ways to increase benefits. Do some Starbucks customers experience benefits when a drive-through window saves them time in the morning? Does the Starbucks app, with the option of preordering your coffee and skipping the line, save a customer time and reduce effort? Does the Starbucks Rewards program, which leads to free cups of coffee, deliver benefits? Does Starbucks' commitment to ethically sourced coffee make a customer *feel* better? Any of these potential value-enhancing activities depends on Starbucks' customers' interpretation of their value to its core customers.

Customers may not think about it very much

It is useful for a manager to evaluate ways to improve the benefits, or reduce the costs, of what the firm offers customers. However, this doesn't mean that customers stop and compute some sort of customer value score before making each purchase. If they did, there wouldn't be much time in life for anything else. So a manager's objective and thorough analysis may not accurately reflect the customer's impressions. Yet it remains the customer's view that matters—even when the customer has not thought about it.

Where does competition fit? You can't afford to ignore competition. Consumers usually have choices about how

they will meet their needs. If a firm hopes to win and keep customers over the long haul, that firm must offer a level of customer value greater than that offered by competitors. Consumers have choices—and they tend to choose options that deliver the most value.

Companies recognize that an offering with high value can change if the competition offers something better. Competition drives innovation and continuous improvements in most markets. When Uber entered the "taxi" market with a more convenient way to hail a ride, many taxi companies developed their own apps and improved service. After Tesla introduced its \$50,000 Model S60 electric car with a range of 208 miles per charge, General Motors (GM) upped its game to bring out the \$30,000 Chevrolet Bolt with a 238-mile range. Then Tesla's Model S upped the range to 375 miles, though that car sold for \$87,000. Of course, there are other benefits to car ownership, and Tesla hopes its newest model delivers other benefits that would justify the higher cost as compared to the Bolt.<sup>17</sup>

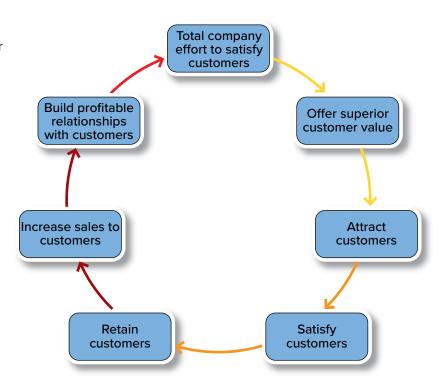
Build relationships with customer value

Firms that embrace the marketing concept seek ways to build a profitable long-term relationship with each customer. Even the most innovative firm faces competition sooner or later. Trying to get new customers by taking them away from a competitor is usually more costly than retaining current customers by really satisfying their needs. Satisfied customers buy again and again, whereas dissatisfied customers often tell others not to buy. Customers that share a firm's values and purpose remain loyal through even the hard times. With a long-term relationship, the customer's buying job is easier, and it also increases the selling firm's profits.

Building relationships with customers requires that everyone in a firm work together to provide customer value before *and after* each purchase. If there is a problem with a customer's bill, the accounting people can't just leave it to the salesperson to straighten it out or, even worse, act like it's "the customer's problem." These hassles raise customers' costs of doing business. The long-term relationship with the customer—and the lifetime value of the customer's future purchases—is threatened unless everyone works together to make things right for the customer. Similarly, the firm's advertising might encourage a customer to buy once, but if the firm doesn't deliver on the benefits promised in its ads, the customer is likely to go elsewhere the next time the need arises. In other words, anytime the customer value is reduced—because the benefits to the customer decrease or the costs increase—the relationship is weakened.<sup>18</sup>

Exhibit 1-6 summarizes these ideas. In a firm that has adopted the marketing

Exhibit 1–6 Satisfying Customers with Superior Customer Value to Build Profitable Relationships



For Review Purposes Only

concept, everyone focuses on customer satisfaction. They look for ways to offer superior customer value. That helps attract customers in the first place—and keeps them satisfied after they buy. So when they are ready to make repeat purchases, the firm is able to keep them as customers. Sales may increase further because satisfied customers are likely to buy other products offered by the firm. In this way, the firm builds profitable relationships with its customers. In other words, when a firm adopts the marketing concept, it wins and so do its customers.

REI's value delivers satisfied customers again and again One company that illustrates these ideas is the retail store Recreational Equipment, Inc., better known as REI. REI specializes in outdoor recreation, including camping supplies, sporting goods, travel gear, and clothing. The company has built enduring relationships with customers who shop at its more than 140 stores or its website. REI customers see superior value in the company's knowledgeable store staff and large selection of high-quality outdoor gear. The company attracts customers who learn about it from already satisfied customers, who see its stores in their town, or who hear about its clever promotions—like when it tells its customers it is closing on Black Friday (one of the biggest shopping days of the year) because everyone should go outside and enjoy nature.

Customers typically enjoy their shopping experiences at REI—and they become satisfied and repeat customers after using the outdoor equipment they purchase. These customers share REI's belief "that it's in the wild, untamed and natural places that we find out best selves, so our purpose is to awaken a lifelong love of the outdoors for all." REI's outdoorsy customers also appreciate that REI leads hundreds of outdoor companies in defending public lands. REI is operated as a co-op and is owned by its six



Source: Recreational Equipment, Inc.

million active members, who become lifetime members by paying \$20. This sense of community also helps REI to retain customers. Members get special members-only coupons and an annual 10 percent rebate on all purchases. These extras enhance customer value and keep customers coming back. And when these loyal customers buy more next year, REI becomes even more profitable. Everyone at REI—from buyers who choose the merchandise it sells to associates offering advice on the sales floor—believes in REI's purpose and focuses on customer satisfaction. This virtuous cycle (see Exhibit 1-6) has helped REI become one of the most popular brands in retail. <sup>19</sup>

# The Marketing Concept, Social Responsibility, and Marketing Ethics

LO 1.7

Society's needs must be considered

The marketing concept is so logical that it's hard to find fault with it. Yet when a firm focuses its efforts on satisfying some consumers—to achieve its objectives—there may be negative effects on society. For example, producers and consumers making free choices can cause conflicts and difficulties. This is called the **micro—macro dilemma**. What is "good" for some firms and consumers may not be good for society as a whole.

For instance, many people in New York City buy bottled water because they like the convenience of easy-to-carry disposable bottles with spill-proof caps. On the other hand, the city already provides citizens with good-tasting, safe tap water at a fraction of the cost. Is this just a matter of free choice by consumers? It's certainly a popular choice! Yet, critics point out that it is an inefficient use of resources to waste oil making and transporting millions of plastic bottles that end up in landfills where they leach chemicals into the soil. That kind of thinking, about the good of society as a whole, explains why New York City has run ads that encourage consumers to "get your fill" of free city water. What do you think? Should future generations pay the environmental price for

today's consumer conveniences?<sup>20</sup>

Questions like these are not easy to answer. The basic reason is that many different people may have a stake in the outcomes-and social consequences-of the choices made by individual managers and consumers in a market-directed system. This means that marketing managers should be concerned with social responsibilitya firm's obligation to improve its positive effects on society and reduce its negative effects. As you read this book and learn more about marketing, you will also learn more about social responsibility in marketing-and why it must be taken seriously. You'll also see that being socially responsible sometimes requires difficult trade-offs.

Social responsibility can be difficult to assess when the effects on society are mixed. Take hydraulic fracturing (fracking), a process that sends pressurized liquid deep into the ground to remove oil and natural gas. Some argue that fracking helps America become more energy independent, produces cleaner fuel compared to alternatives, and lowers gas prices, thus stimulating the economy. On the other hand, the chemicals and procedures used in fracking may harm the environment and cause earthquakes. The government and many oil and gas producers are working to minimize the neg-



Source: New York City Department of Health/DCF Advertising

ative effects, but as you can imagine there are no easy answers for these conflicts.<sup>21</sup>

The issue of social responsibility in marketing also raises other important questions—for which there are no easy answers.

Should all consumer needs be satisfied?

What if it cuts into profits?

Some consumers want products that may not be safe or good for them in the long run. Some critics argue that businesses should not offer high-heeled shoes, alcoholic beverages, marijuana, gambling, or sugar-coated cereals because they aren't "good" for some consumers in the long run. Similarly, bicycles and roller blades are among the most dangerous products identified by the Consumer Product Safety Commission. Who should decide if these products will be offered to consumers?

There are times when being socially responsible can increase not only a firm's profits, but also its costs. Even though some consumers will pay premium prices to buy "fair trade" coffee, napkins made from recycled paper, hybrid cars that pollute less, or products made in overseas factories that pay a fair wage, these items may cost more to produce. At the same time, other consumers attach little or no value to these social measures and refuse to pay a higher price for such products. Consequently, many firms selling to this second group are reluctant to be more socially responsible.

When a society feels that the social benefits are important, it may add regulations to create a level playing field for all firms and to ensure that these benefits are provided. For example, there are laws that protect rivers from water pollution and that restrict the use of child labor. Still, it is difficult for governments to impose regulations that govern all circumstances where such trade-offs occur. So is the marketing concept really desirable?

#M4BW Ben & Jerry's runs its business with a very clear set of values. These values guide the ice cream maker's employees, including its marketing managers' ethics—the moral standards that guide marketing decisions and actions. Do these values resonate with you? Do they make you more (or less) likely to go to Ben & Jerry's?

Ben & Jerry's Homemade Inc.



Socially conscious marketing managers are trying to answer these questions. Their definition of customer satisfaction includes long-range effects—as well as immediate customer satisfaction. They try to balance consumer, company, and social interests.

The marketing concept guides marketing ethics

A manager cannot be truly customer-oriented and at the same time intentionally unethical. However, at times, problems and criticism may arise because a manager did not fully consider the ethical implications of a decision. In either case, there is no excuse for sloppiness when it comes to marketing ethics—the moral standards that guide marketing decisions and actions. Each individual develops moral standards based on his or her own values. That helps explain why opinions about what is right or wrong often vary from one person to another, from one society to another, and among different groups within a society. It is sometimes difficult to say whose opinions are "correct." Even so, such opinions may have a very real influence on whether an individual's (or a firm's) marketing decisions and actions are accepted or rejected. So marketing ethics are not only a philosophical issue; they are also a pragmatic concern.

Problems may arise when one or a few individual managers don't share the same marketing ethics as others in the organization. A small number of people—or even one person operating alone—can damage a firm's reputation and even survival. Consider the scandal faced by Volkswagen when it came to light that the company had found a way to "cheat" on emissions tests. When the company could not find a way to meet emissions reduction targets in its diesel vehicles, a few supervisors approved development of software designed to "cheat" emission testing systems. For years, about 11 million Volkswagen cars spewed as much as 40 times the allowable amount of pollutants. After this was discovered, Volkswagen paid out more than \$23 billion in fines and fixes.<sup>22</sup>

To be certain that standards for marketing ethics are as clear as possible, many organizations have developed their own written codes of ethics. These codes usually state—at least at a general level—the ethical standards that everyone in the firm should follow in dealing with customers and other people. Many professional societies also have such codes. For example, the American Marketing Association's code of ethics—see Exhibit 1–7—sets specific ethical standards for many aspects of marketing.<sup>23</sup>

Understand your own ethics

Throughout the text, we will be discussing the types of ethical issues individual marketing managers face. But we won't be moralizing and trying to tell you how you should think on any given issue. Rather, by the end of the course we hope that *you* will have

### Exhibit 1–7 Summary of American Marketing Association Statement of Ethics

### **Preamble**

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

### **Ethical Norms**

As Marketers, we must:

- Do no harm.
- · Foster trust in the marketing system.
- · Embrace ethical values.

### **Ethical Values**

- · Honesty—to be forthright in dealings with customers and stakeholders.
- Responsibility—to accept the consequences of our marketing decisions and strategies.
- Fairness—to balance justly the needs of the buyer with the interests of the seller.
- · Respect—to acknowledge the basic human dignity of all stakeholders.
- Transparency—to create a spirit of openness in marketing operations.
- · Citizenship—to fulfill the economic, legal, philanthropic, and societal responsibilities that serve stakeholders.

Source: American Marketing Association. "Codes of Conduct | AMA Statement of Ethics." 2019. https://www.ama.org/.

some firm personal opinions about what is and is not ethical in micro-marketing activities. To help you think through your opinions, you will find *Ethical Dilemmas* in each chapter. As in the one below, the answer is not always obvious.<sup>24</sup>

Ethical Dilemma

What would you do? A customer purchases a GE Profile refrigerator that comes with a one-year warranty on parts and labor. The salesperson suggests that the customer consider the store's three-year extended service plan to cover any problems with the refrigerator. The customer replies, "I'm getting a GE Profile because it's a reputable brand—and I have read these extended warranties aren't necessary." Fourteen months later, the customer returns to the store and complains that the ice maker on the refrigerator doesn't work right—and argues "the store needs to make it right."

If you were the store manager, what would you say? Would your response be any different if you knew that the customer was going to post a negative review on the company website?

### Marketing has its critics

We must admit that marketing—as it exists in the United States and other developed societies—has many critics. Marketing activity is especially open to criticism because it is the part of business most visible to the public.

A number of typical criticisms of marketing are summarized in Exhibit 1–8. Think about these critiques and whether you agree with them or not. What complaints do you have that are not listed among the examples in Exhibit 1–8?

Such complaints should not be taken lightly. They show that many people are unhappy with some parts of the marketing system. Certainly, the strong public support for consumer protection laws proves that not all consumers feel they are being treated like royalty.

# Exhibit 1–8 Sample Criticisms of Marketing

- · Advertising is everywhere, and it's often annoying, misleading, or wasteful.
- The quality of products is poor, and often they are not even safe.
- · There are too many unnecessary products.
- Retailers add too much to the cost of distribution and just raise prices without providing anything in return.
- · Marketing serves the rich and exploits the poor.
- Marketers overpromise service, and when a consumer has a problem, nobody cares.
- Marketing creates interest in products that pollute the environment.
- Private information about consumers is collected and used to sell them things they don't need.
- Marketing makes people too materialistic and motivates them toward "things" instead of social needs.
- · Easy consumer credit makes people buy things they don't need and can't afford.
- Companies claim to be "green" but often act in many unsustainable ways.



Can marketing help create a better world?

As the criticisms above suggest, some people believe that marketing's primary activity is convincing people to buy stuff they don't need and can't afford. We are not so naïve that we don't recognize that at least some marketing managers and companies share this philosophy. That said, we believe that the vast majority of businesspeople and companies believe that good marketing contributes to a better world.

What do we mean by a "better world"? Our definition follows our discussion of the marketing concept, social responsibility, and marketing ethics. We believe a better world is one where: (1) buyers and sellers make better decisions, are healthier, and through their consumption choices (or decision not to consume) experience a better quality of life; (2) buyers and sellers make decisions that have less adverse impacts on others; and (3) marketing strategy decisions address some of the world's most challenging problems—including hunger, poverty, and climate change.<sup>25</sup>

While many purpose-oriented companies focus on incorporating some "better world" outcomes, purpose-oriented companies really embrace the challenge of using

Exhibit 1–9 Examples of Companies Using Marketing for a Better World (#M4BW)

	Company	How It Uses Marketing for a Better World (#M4BW) <sup>26</sup>
	Vodafone and Safaricom	Created the mobile phone—based money platform M-Pesa, which allows people who lack access to bank accounts to join the larger economy. Kenya alone boasts more than 25 million users.
	Nestlé	Recognizing the harms caused by sugar, Nestlé has prioritized reducing sugar in its products. Its R&D department has created a prototype hollowed-out sugar crystal that may reduce the amount of sugar in some of its products (including chocolate) by 40 percent.
	Novartis	Brought essential medicines and education on hygiene to India's rural poor.
	Volvo	Acknowledging the automobile's contribution to environmental problems, Volvo announced that starting in 2019 every Volvo would run partially or completely on an electric engine.
	Cemex	Overhauled its business model and figured out how to help a half-million Latin American families build their own home for one-third the usual time and cost—and still make a profit

their products to create a better world. And these firms often find that such endeavors are profitable. We are not saying "better world" is a charitable endeavor. Exhibit 1-9 shows a few examples of marketing strategies that have made for a better world. Throughout this text, we will point out people, brands, and organizations that use marketing for a better world. We highlight these examples with a green box around the text and our #M4BW (Marketing for a Better World) icon. We want to remind (and hopefully inspire) you to practice marketing for a better world.

#M4BW Some businesses look to the United Nations Sustainable Development Goals for guidance on how to align making profits with helping create a better world. Do you think companies should have some responsibility for more than profits? Should businesses try to make the world a better place? Randy Duchaine/Alamy Stock Photo



### LEARNING OBJECTIVE REVIEW

The basic purpose of this chapter is to introduce you to marketing and highlight its value for consumers, firms, and society. This chapter sets the stage for that by introducing basic principles that guide marketing thinking. Chapter 1 begins with a case study that looks at how Nike practices marketing and reflects the key concepts addressed in this chapter. Let's look at how we achieved the learning objectives set out at the start of the chapter.

LO1.1 Know what marketing is and why you should learn about it. Many people think that marketing means "selling" and "advertising." Because we wanted to make sure you didn't start your studies with this misconception, we describe some of the many activities that are part of marketing. Marketing is important to students of all majors. No matter what your job is, you are likely to interact with marketing people. When you look for a job, marketing concepts will help you get one that appeals to you. Marketing also encourages innovation.

Marketing is defined as the performance of activities that seek to accomplish an organization's objectives by anticipating customer or client needs and directing a flow of need-satisfying goods and services from producer to customer or client. Marketing begins with customer needs and involves exchanges that will make both parties to an exchange better off. Finally, we point out how management-oriented micro-marketing will be the focus of the text.

LO1.2 Understand the difference between marketing and macro-marketing. While the textbook largely describes micro-marketing, this chapter shows how this perspective differs from *macro*-marketing perspective. Macro-marketing takes a broader view and examines an economy's flow of goods and services.

LO1.3 Know the marketing functions and why marketing specialists—including intermediaries and collaborators—develop to perform them. There are eight universal

functions of marketing that must be performed in all macro-marketing systems: buying, selling, transporting, storing, standardization and grading, financing, risk taking, and market information. These functions may be done by producers, intermediaries (retailers and whole-salers), and collaborators that facilitate getting marketing functions done.

LO1.4 Understand what a market-driven economy is and how it adjusts the macro-marketing system. The discussion of the larger macro-marketing system continues with an explanation of how a market-directed economy typical in most of the world differs from a command economy. The market-directed economy relies on customers to determine what products are produced—and customers vote with their money by purchasing what they value. This system may be directed by customers, but public interest groups and the government also play a role that varies across different societies. The role of marketing varies across these systems and has evolved over the years from the simple trade era to the marketing company era where most companies operate today.

LO1.5 Know what the marketing concept is—and how it should guide a firm or nonprofit organization. The marketing concept means that an organization aims all of its efforts at satisfying customers at a profit. The marketing concept requires a firm to achieve a profit or other measures of long-term success—and is relevant to for-profit and nonprofit firms. The marketing orientation was compared with the production orientation. An extension of the marketing concept is the triple bottom line and the relatively new idea of a purpose orientation. A purpose orientation focuses on the organization's reason for being that extends beyond profit and creates value for stakeholders, including customers, employees, suppliers, investors, and communities. This approach is still relatively new and supports the marketing concept.

LO1.6 Understand what customer value is and why it is important to customer satisfaction. We also introduce the customer value concept. It is marketing's responsibility to make certain that what the firm offers customers really provides them with value that is greater than what they can obtain somewhere else. In today's competitive markets, a firm must offer superior customer value if it wants to attract customers, satisfy them, and build beneficial long-term relationships with them.

LO1.7 Know how social responsibility and marketing ethics relate to the marketing concept. Another objective is for you to see how social responsibility and mar-

keting ethics relate to the marketing concept. The chapter ends by considering criticisms of marketing—both of the way individual firms work and of the whole macro system. In addition, we introduce the idea that good marketing can help create a better world.

LO1.8 Understand the important new terms (shown in bold). Knowing and appropriately using the vocabulary of marketing will help you in your future job. These key terms are shown in bold font throughout the chapter and for your convenience, this chapter's key terms are listed next.

### **KEY TERMS**

production, 5 customer satisfaction, 5 innovation, 6

marketing, 7 pure subsistence economy, 8

macro-marketing 10

macro-marketing, 10

universal functions of marketing, 10

buying function, 10 selling function, 10

transporting function, 10

storing function, 10

standardization and grading, 11

financing, 11 risk taking, 11

market information function, 11

intermediary, 11 collaborators, 11

economic system, 13

command economy, 13

market-directed economy, 13

simple trade era, 16

production era, 16

sales era, 17

marketing department era, 17

marketing company era, 17

marketing concept, 17

production orientation, 17

marketing orientation, 17

marketing metrics, 18

triple bottom line, 19

purpose orientation, 20

customer value, 21

micro-macro dilemma, 24

social responsibility, 25

marketing ethics, 26

### QUESTIONS AND PROBLEMS

- The case that opens this chapter features Nike. Review this case and pull out as many examples as you can of different key terms and concepts. For example, Nike demonstrated social responsibility (key term) when it began to monitor its suppliers' labor practices.
- Review the Nike case study that opens this chapter. In what ways does Nike appear to follow the marketing concept? Suggest three other activities Nike could do to follow the marketing concept.
- If a producer creates a revolutionary new product and consumers can learn about it and purchase it on a website, is any additional marketing effort really necessary? Explain your thinking.
- Distinguish between the micro and macro views of marketing. Then explain how they are interrelated, if they are
- Define the functions of marketing in your own words. Using an example, explain how they can be shifted and shared.

- 6. Distinguish between how economic decisions are made in a command economy and how they are made in a market-directed economy.
- 7. Explain why a market-directed macro-marketing system encourages innovation. Give an example.
- 8. Define the marketing concept in your own words, and then explain why the notion of profit is usually included in this definition.
- 9. Define the marketing concept in your own words, and then suggest how acceptance of this concept might affect the organization and operation of your college.
- 10. Conduct an online search for "companies using a triple bottom line." List each company and describe how each contributes to people, planet, and profit.
- 11. Give examples of some of the benefits and costs that might contribute to the customer value of each of the following products: (a) a wristwatch, (b) a weight-loss diet supplement, (c) a cruise on a luxury liner, and (d) a checking account from a bank.

- 12. What are examples of the benefits that you can provide to a prospective employer in your field? What are examples of the costs that employer would incur if it hired you? How do you think you can increase the value you offer a prospective employer?
- 13. Give an example of a recent purchase you made where the purchase wasn't just a single transaction but rather part of an ongoing relationship with the seller. Discuss what the seller has done (or could do better) to strengthen the relationship and increase the odds of you being a loyal customer in the future.
- 14. Discuss how the micro-macro dilemma relates to each of the following products: high-powered engines in cars, nuclear power, bank credit cards, and pesticides that improve farm production.
- 15. Think of three companies that you feel make the world a better place. Explain what they do to make the world a better place. Then explain whether you think this makes them more profitable or not.

### SUGGESTED CASES

- 1. McDonald's "Seniors" Restaurant
- 16. Montana Company
- 35. The Norbank Baseball Club

2. Guadalupe Natural Foods, Inc.

### MARKETING ANALYTICS: DATA TO KNOWLEDGE

# CHAPTER 1: REVENUE, COST, AND PROFIT RELATIONSHIPS

This problem introduces you to the Marketing Analytics exercises, which are available online (may require a separate purchase) for this text—and gets you started with the use of spreadsheet analysis for marketing decision making. The online course a spreadsheet to help you focus on the use of marketing analytics and not spreadsheet creation. In this case the problem is relatively simple. In fact, you could work it without the software. But by starting with a simple problem, you will learn how to use the program more quickly and see how it will help you with more complicated problems.

Sue Cline, the business manager at Magna University Student Bookstore, is developing plans for the next academic year. The bookstore is one of the university's non-profit activities, but any "surplus" (profit) it earns is used to support the student activities center.

Two popular products at the bookstore are the student academic calendar and notebooks with the school name. Sue thinks that she can sell calendars to 90 percent of Magna's

3,000 students, so she has had 2,700 printed. The total cost, including artwork and printing, is \$11,500. Last year the calendar sold for \$5, but she is considering changing the price this year.

Sue thinks that the bookstore will be able to sell 6,000 notebooks if they are priced right. But she knows that many students will buy similar notebooks (without the school name) from stores in town if the bookstore price is too high.

Sue has entered the information about selling price, quantity, and costs for calendars and notebooks in the spreadsheet program so that it is easy to evaluate the effect of different decisions. The spreadsheet is also set up to calculate revenue and profit, based on

Revenue = (Selling price)  $\times$  (Quantity sold) Profit = (Revenue) - (Total cost)

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

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