

PRIDE | FERRELL

MARKETING

2020



Chapter 1

An Overview of Strategic Marketing

Learning Objectives

- LO 1-1** Define marketing.
- LO 1-2** Explain the different variables of the marketing mix.
- LO 1-3** Describe how marketing creates value.
- LO 1-4** Briefly explore the marketing environment.
- LO 1-5** Summarize the marketing concept.
- LO 1-6** Identify the importance of building customer relationships.
- LO 1-7** Explain why marketing is important to our global economy.

Defining Marketing

- **Marketing** – The process of creating, distributing, promoting, and pricing goods, services, and ideas to facilitate satisfying exchange relationships with customers and to develop and maintain favorable relationships with stakeholders in a dynamic environment
- The essence of marketing is to develop satisfying exchanges from which both customers and marketers benefit
- **Customers** – The purchasers of organizations' products
 - Are the focal point of all marketing activities
- **Target market** – A specific group of customers on whom an organization focuses its marketing efforts

Figure 1.1 – Components of Strategic Marketing



Discussion Point

Who Is the Target Market?

- Gap Inc. owns several major brands: its Gap brand, Old Navy, Banana Republic, Athleta, and Hill City. Despite having the same owner, all four of these brands have different target markets.

Identify the target market for each brand: Gap, Old Navy, Banana Republic, Athleta, and Hill City.

Marketing Deals with Products, Distribution, Promotion, and Price (slide 1 of 2)

- Marketing is more than simply advertising or selling a product
 - It involves:
 - Developing and managing a product that will satisfy customer needs
 - Promoting to help customers learn about the product and determine if the product will satisfy their needs
 - Making the product available in the right place
 - Pricing the product at an acceptable level for buyers
 - Communicating information to help customers determine if the product will satisfy their needs

Marketing Deals with Products, Distribution, Promotion, and Price (slide 2 of 2)

- **Marketing mix** – Four marketing activities—product, pricing, distribution, and promotion—that a firm can control to meet the needs of customers within its target market
 - A firm can control these activities to meet the needs of customers within its target market
 - There is a limit to how much these variables can be controlled
- Marketers must:
 - Strive to develop a marketing mix that matches the needs of customers in the target market
 - Constantly monitor the competition and adapt their products, distribution decisions, promotion, and pricing to foster long-term success
 - Collect in-depth, up-to-date information about customer needs, such as:
 - The age, income, ethnicity, gender, and educational level of people in the target market
 - Their preference for product features
 - Their attitudes toward competitors' products
 - The frequency with which they use the product

Discussion Point

Starbucks: Transforming into a Health-Conscious Brand

- Starbucks has a long-term strategic plan to transform into a healthy snack/meal alternative. In 2011, the company acquired Evolution Fresh, a juice bar brand. In 2013, it announced a strategic agreement with Danone, the world's leading producer of fresh dairy products, to jointly create and develop Greek yogurt for its Evolution brand to be sold in both its stores and grocery stores.

How is Starbucks changing its marketing mix to become health conscious?

The Product Variable

- **Product** – A good, a service, or an idea
 - Good – A physical entity that you can touch
 - Service – The application of human and mechanical efforts to people or objects to provide intangible benefits to customers
 - Idea – A concept, a philosophy, an image, or an issue
- The product variable involves creating or modifying brand names and packaging
 - May also include decisions regarding warranty and repair services
- Product variable decisions and activities are important because they directly relate to customers' needs and wants

The Distribution Variable

- To satisfy customers, products must be available at the right time and in appropriate locations
- A marketing manager makes products available in the quantities desired to as many target-market customers as possible while minimizing these three costs:
 - Inventory
 - Transportation
 - Storage
- A marketing manager also may:
 - Select and motivate intermediaries (wholesalers and retailers)
 - Establish and maintain inventory control procedures
 - Develop and manage transportation and storage systems
- The advent of the internet and electronic commerce has dramatically influenced the distribution variable
 - Companies now can make their products available throughout the world without maintaining facilities in each country

The Promotion Variable

- The promotion variable relates to activities used to inform and persuade to create a desired response
- Promotion can:
 - Increase public awareness of the organization and of new or existing products
 - Inform customers about product features
 - Urge people to take a particular stance on a political or social issue
 - Help to sustain interest in established products

The Price Variable

- The price variable relates to decisions and actions associated with pricing objectives and policies and actual product prices
 - Price is a critical component of the marketing mix because customers are concerned about the value obtained in an exchange
 - Price is often used as a competitive tool
 - Intense price competition sometimes leads to price wars

Marketing Creates Value

- **Value** – A customer’s subjective assessment of benefits relative to costs in determining the worth of a product
- Customer benefits include anything a buyer receives in an exchange
- Customer costs include anything a buyer must give up to obtain the benefits the product provides, including cost, time, effort, and risk
- Value is a subjective assessment of benefits relative to costs
- A product that demonstrates value usually has a feature or an enhancement that provides benefits
 - Lowest price
 - Convenience
 - Availability

Review Question

1. Which answer below correctly indicates the components of the marketing mix?
 - a. production, price, place, promotion
 - b. production, price, placement, promotion
 - c. product, price, place, promotion
 - d. product, price, placement, promotion

Marketing Builds Relationships with Customers and Other Stakeholders (slide 1 of 2)

- **Exchanges** – The provision or transfer of goods, services, or ideas in return for something of value
- For an exchange to take place, four conditions must exist:
 - Two or more individuals, groups, or organizations must participate, and each must possess something of value that the other party desires
 - The exchange should provide a benefit or satisfaction to both parties involved in the transaction
 - Each party must have confidence in the promise of the “something of value” held by the other
 - To build trust, the parties to the exchange must meet expectations
- Marketing activities should attempt to create and maintain satisfying exchange relationships
 - To maintain an exchange relationship:
 - Buyers must be satisfied with the good, service, or idea obtained
 - Sellers must be satisfied with the financial reward or something else of value received

Marketing Builds Relationships with Customers and Other Stakeholders (slide 2 of 2)

- **Stakeholders** – Constituents who have a “stake,” or claim, in some aspect of a company’s products, operations, markets, industry, and outcomes
 - Stakeholders include:
 - Customers
 - Employees
 - Investors and shareholders
 - Suppliers
 - Governments
 - Communities
 - Competitors

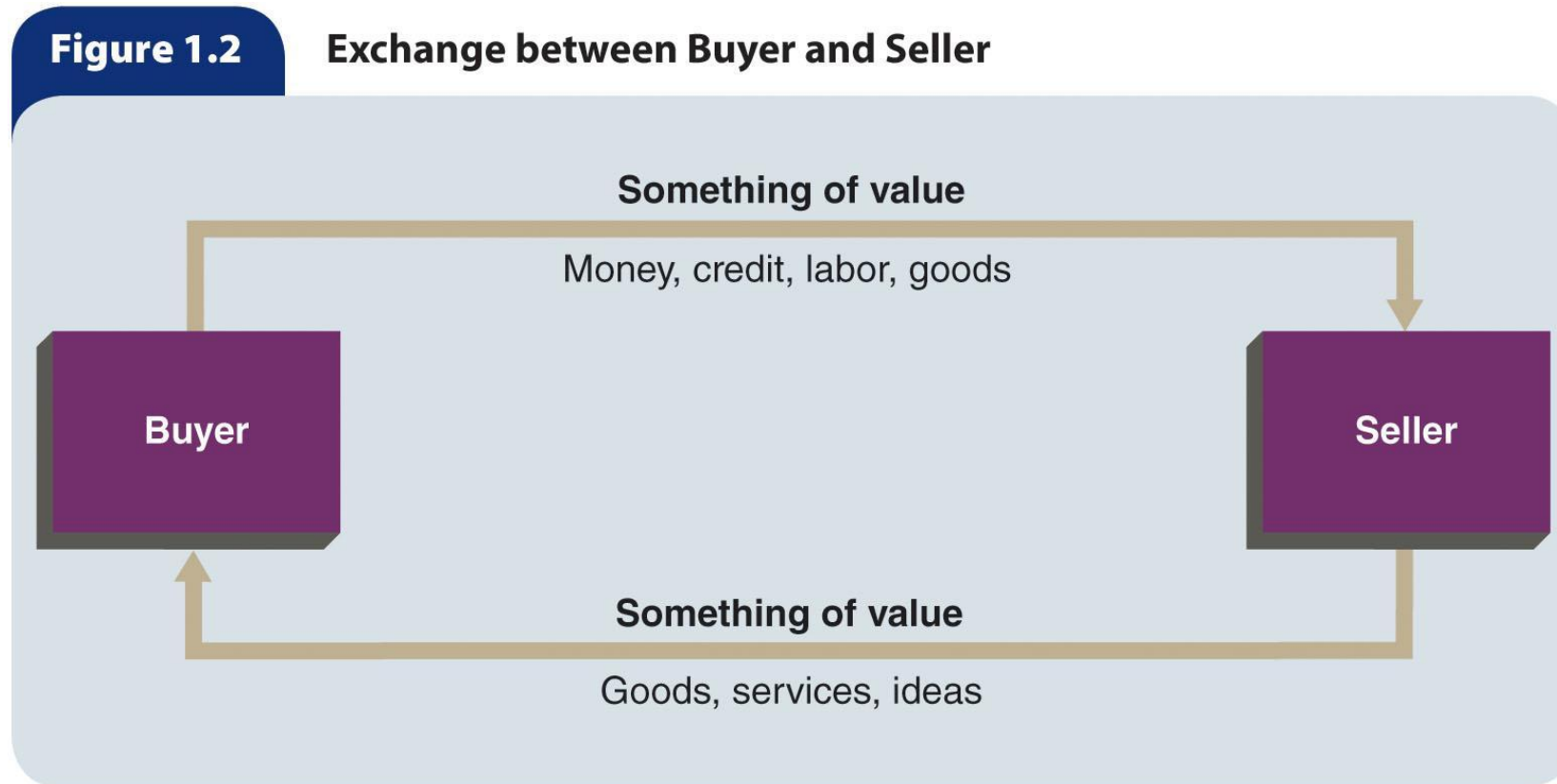
Discussion Point

Stakeholders

- Starbucks is adept at using the marketing concept to offer a customized experience for its customers. Customers have even come in with their own coffee recipes and, if able, baristas will make them. Starbucks considers its other stakeholders as well.

Name some ways that Starbucks meets the needs of employees, suppliers, the environment, and investors.

Figure 1.2 – Exchange between Buyer and Seller



Marketing Occurs in a Dynamic Environment (slide 1 of 2)

- **Marketing environment** – The competitive, economic, political, legal and regulatory, technological, and sociocultural forces that surround the customer and affect the marketing mix
- The effects of these forces on buyers and sellers can be dramatic and difficult to predict
- Their impact on value can be extensive as market changes can easily influence how stakeholders perceive certain products
- These forces affect a marketer's ability to facilitate value-driven exchanges in three general ways:
 - Influence customers by affecting their lifestyles, standards of living, and preferences and needs for products
 - Can determine whether and how a marketing manager can perform certain marketing activities
 - May shape a marketing manager's decisions and actions by influencing buyers' reactions to the firm's marketing mix

Marketing Occurs in a Dynamic Environment (slide 2 of 2)

- Because these forces are closely interrelated, changes in one way cause changes in others
- Changes in the marketing environment produce uncertainty for marketers and at times hurt marketing efforts, but they also create opportunities
- Compared to marketing-mix variables, an organization has far less control over the forces of the environment

Understanding the Marketing Concept

- **Marketing concept** – A managerial philosophy that an organization should try to satisfy customers' needs through a coordinated set of activities that also allows the organization to achieve its goals
 - The marketing concept is not a second definition of marketing but rather a management philosophy guiding an organization's overall activities
 - A firm that adopts the marketing concept must satisfy not only its customers' objectives but also its own objectives
- The evolution of marketing has gone through three periods, including:
 - Production orientation
 - Sales orientation
 - Market orientation

The Production Orientation

- During the second half of the 19th century, the Industrial Revolution improved speed and efficiency
- As a result of new technology and new ways of using labor, products poured into the marketplace, where demand for manufactured goods was strong
- Firms were developing the ability to produce more products, and competition was becoming more intense

The Sales Orientation

- During the first half of the 20th century, competition increased and focus shifted to selling products to many buyers
- Businesses viewed sales as the major means of increasing profits
- Businesspeople believed that the most important marketing activities were personal selling, advertising, and distribution
- Some people incorrectly equate marketing with a sales orientation
- Some firms still use a sales orientation

The Market Orientation

- Emerged in the mid-20th century
- **Market orientation** – An organization-wide commitment to researching and responding to customer needs
- Market orientation is linked to new product innovation by developing a strategic focus to explore and develop new products to serve target markets

Implementing the Marketing Concept

- Management must first establish an information system to discover customers' real needs and then use the information to create satisfying products
 - An information system is usually expensive; management must commit money and time for its development and maintenance
 - Without an adequate information system, however, an organization cannot be market oriented
- To satisfy customers' objectives as well as its own, a company also must coordinate all of its activities
- Implementing the marketing concept demands the support not only of top management but also of managers and staff at all levels of the organization

Customer Relationship Management

- **Customer relationship management** – Using information about customers to create marketing strategies that develop and sustain desirable customer relationships
- Achieving the full profit potential of each customer relationship should be the fundamental goal of every marketing strategy
- Profits can be obtained through relationships in the following ways:
 - By acquiring new customers
 - By enhancing the profitability of existing customers
 - By extending the duration of customer relationships
- Implementing the marketing concept means optimizing the exchange relationship

Relationship Marketing

- **Relationship marketing** – Establishing long-term, mutually satisfying buyer-seller relationships
 - Focuses on value enhancement through the creation of more satisfying exchanges
 - Continually deepens the buyer's trust in the company
 - Increases the firm's understanding of the customer's needs
- To build long-term customer relationships, marketers are increasingly turning to marketing research and information technology
 - Through the use of e-marketing, companies can personalize customer relationships on a nearly one-on-one basis

Customer Lifetime Value

- **Customer lifetime value (CLV)** – A key measurement that forecasts a customer's lifetime economic contribution based on continued relationship marketing efforts
 - Requires identifying patterns of buying behavior and using that information to focus on the most promising and profitable customers
 - Represents an intangible asset to a marketer that can be augmented by addressing the customer's varying needs and preferences at different stages in his or her relationship with the firm
 - May include an individual's strong word-of-mouth communication about the company's products
- The emphasis changes from *share of market* to *share of customer*
 - The most basic application of this idea is 80 percent of business profits come from 20 percent of customers
- Can be calculated by taking the sum of the customer's present value contributions to profit margins over a specific time frame
 - Helps marketers determine how best to allocate resources to marketing strategies to sustain a customer over a lifetime

Review Question

2. Which of the orientations is sometimes exhibited by modern high tech firms?
 - a. production orientation
 - b. product orientation
 - c. sales orientation
 - d. marketing orientation

The Importance of Marketing in Our Global Economy (slide 1 of 3)

- Marketing costs consume a sizable portion of buyers' dollars
 - About one-half of a buyer's dollars goes toward marketing costs
- Marketing is used in nonprofit organizations
 - Government agencies at the federal, state, and local levels engage in marketing activities to fulfill their mission and goals
 - In the private sector, nonprofit organizations employ marketing activities to create, distribute, promote, and price programs that benefit particular segments of society
- Marketing is important to business and the economy
 - Marketing activities help to produce the profits that are essential to the survival of individual businesses
 - Marketing helps to create a successful economy and contributes to the well-being of society
- Marketing fuels our global economy
 - Advances in technology, along with falling political barriers and the universal desire for a higher standard of living, have made marketing across national borders commonplace while stimulating economic growth

The Importance of Marketing in Our Global Economy (slide 2 of 3)

- Marketing knowledge enhances customer awareness
 - Studying marketing allows us to understand the importance of marketing to customers, organizations, and our economy
- Marketing connects people through technology
 - Technology helps marketers to understand and satisfy more customers than ever before
 - The Internet allows companies to disseminate information about their products and interact with target markets
- Socially responsible marketing: Promoting the welfare of customers and stakeholders
 - **Green marketing** – A strategic process involving stakeholder assessment to create meaningful long-term relationships with customers while maintaining, supporting, and enhancing the natural environment
 - Market orientation combined with social responsibility improves overall business performance

The Importance of Marketing in Our Global Economy (slide 3 of 3)

- Marketing offers many exciting career prospects
 - From 25 to 33 percent of all civilian workers in the United States perform marketing activities
 - The marketing field offers a variety of interesting and challenging career opportunities throughout the world, such as:
 - Personal selling
 - Advertising
 - Packaging
 - Transportation
 - Storage
 - Marketing research
 - Product development
 - Social media management
 - Wholesaling
 - Retailing