## Chapter 1: Marketing in Today’s Economy

**Chapter Outline**

## I. Introduction

1. *Beyond the Pages* 1.1 reviews the challenges associated with marketing productsin mature industries. Commoditization is a consequence of mature industries, where slowing innovation, extensive product assortment, excess supply, and fickle, price-conscious consumers force margins to the floor.
2. All organizations—both for-profit and nonprofit—require effective planning and a sound marketing strategy to achieve their goals and objectives. Without these vital efforts, organizations will not be able to satisfy the needs and wants of their customers or other stakeholders.

C. Organizations use sound marketing strategy to leverage their strengths and capitalize on opportunities that exist in the market. Every organization develops and implements marketing strategies.

D. This chapter will review some of the major challenges and opportunities that exist in planning marketing strategy in today’s economy. It will also review the nature and scope of major marketing activities and decisions that occur throughout the planning process. Finally, the chapter looks at some of the major challenges involved in developing marketing strategy.

## II. The Challenges and Opportunities of Marketing in Today’s Economy

A. Fundamental Changes to Marketing and Business Practice

1. *Power Shift to Customers*: The astounding growth of the Internet has *shifted power to customers*, not marketers.

2. *Massive Increase in Product Selection*: The variety and assortment of goods and services offered for sale on the Internet and traditional stores is staggering. This radical increase in product selection and availability has exposed marketers to inroads by competitors from every corner of the globe.

3. *Audience and Media Fragmentation*: Since the advent of cable television in the late 1970s, mass media audiences have become increasingly fragmented. Media audiences have become fragmented due to (1) the sheer number of media choices we have available today, and (2) the limited time we have to devote to any one medium. [Exhibit 1.1]

4. *Changing Value Propositions*: The speed and efficiency of commerce today has changed the way customers view value. The lesson for marketers is clear: In situations where customers see goods and services as commodities, customers will turn to the most convenient, least expensive alternative.

5. *Shifting Demand Patterns*: In some cases, changes in technology have shifted customer demand for certain product categories. The challenges faced by the movie rental industry bear this out.

6. *Privacy, Security, and Ethical Concerns*: Changes in technology have made our society much more open than in the past. As a result, these changes have forced marketers to address real concerns about security and privacy, both online and offline. For example, many well-known and respected companies have been fined for violating the standards of the Children’s Online Privacy Protection Act. [Exhibit 1.2]

7. *Unclear Legal Jurisdiction*: A final issue concerns the conflicting perspectives over legal jurisdiction when a company does business in more than one country. Another important issue involves the collection of sales tax for online transactions.

B. Although the full effect of these changes will not be recognized for some time, circumstances have forced businesses to move ahead by adjusting their marketing activities at both the strategic and tactical levels.

## III. Basic Marketing Concepts

A. Different Views of Marketing

1. Many people, especially those not employed in marketing, see marketing as a function of business. Other individuals, particularly those working in marketing jobs, tend to see marketing as a process of managing the flow of products from the point of conception to the point of consumption.

2. In 2005, the American Marketing Association changed the definition of marketing to better reflect the realities of competing in today’s marketplace: “Marketing is an organizational function and a set of business processes for creating, communicating, and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders.” This revised definition stresses two critical success factors in marketing today: value and customer relationships. The AMA changed the definition of marketing again in 2007. The definition now reads: "Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large."

3. A final way to think about marketing relates to meeting human and social needs. This broad view links marketing with our standard of living, not only in terms of enhanced consumption and prosperity, but also in terms of society’s well being.

B. What Is a Market?

1. At its most basic level, a *market* is a collection of buyers and sellers. We tend to think of a market as a group of individuals or institutions that have similar needs that can be met by a particular product or product category.

2. This basic understanding of a market has not changed in a very long time. What has changed, however, is not so much the “what” but the “where” of a market; that is, the location of the buyers and sellers.

3. Technology mediates some of the fastest growing markets. The term *marketspace* has been coined to describe these electronic marketplaces unbound by time or space. The shift from marketplaces to marketspaces has significant ramifications for marketers.

4. Many consumers have been slow to embrace marketspaces because they lack the human element. In these cases, the design and implementation of the online experience is a serious challenge for marketspace operators.

5. Another shift is the advent of *metamarkets* (a cluster of closely related goods and services that center around a specific consumption activity) and *metamediaries* (a single access point where buyers can locate and contact many different sellers in the metamarket). [Exhibit 1.3]

C. What Is Exchange?

1. *Exchange* is traditionally defined as the process of obtaining something of value from someone by offering something in return; this usually entails obtaining products for money. For exchange to occur, five conditions must

be met:

a) There must be at least two parties to the exchange.

b) Each party has something of value to the other party.

c) Each party must be capable of communication and delivery.

d) Each party must be free to accept or reject the exchange.

e) Each party believes that it is desirable to exchange with the other party.

2. In today’s economy, exchange has become all too easy. Opportunities for exchange bombard us virtually everywhere we go—even in our own homes.

3. The ease with which exchange can occur today presents a problem in that individuals who do not have the authority to exchange can still complete transactions.

D. What Is a Product?

1. The primary focus of marketing is the customer and how the organization can design and deliver products that meet customers’ needs.

2. A *product* is something that can be acquired via exchange to satisfy a need or a want. This definition permits us to classify a broad number of “things” as products: goods, services, ideas, information, digital products, people, places, experiences and events, real or financial property, and organizations.

3. A customer’s decision to purchase one product or group of products over another is primarily a function of how well that choice will fulfill their needs and satisfy their wants.

4. Customers usually seek out exchanges with marketers who offer products that are high in one or more of the five types of utility:

a) *Form utility*: Products high in form utility have attributes or features that set them apart from the competition.

b) *Time utility*: Products high in time utility are available when customers want them.

c) *Place utility*: Products high in place utility are available where customers want them, which is typically wherever the customer happens to be or where the product needs to be at that moment.

d) *Possession utility*: Possession utility deals with the transfer of ownership or title from marketer to customer.

e) *Psychological utility*: Products high in psychological utility deliver positive experiential or psychological attributes that customers find satisfying.

5. *Beyond the Pages* 1.2 discusses how Walmart, Procter & Gamble, and Hulu have managed to maintain creativity and innovation to satisfy customer needs in a weakened economy.

## IV. Major Marketing Activities and Decisions

A. Strategic Planning

1. If an organization is to have any chance of reaching its goals and objectives, it must have a game plan or road map for getting there.

2. A *strategy* outlines the organization’s game plan for success.

3. *Tactical planning* concerns itself with specific markets or market segments and the development of marketing programs that will fulfill the needs of customers in those markets.

4. The *marketing plan* provides the outline for how the organization will combine product, pricing, distribution, and promotion decisions to create an offering that customers will find attractive.

B. Research and Analysis

1. Strategic planning depends on the availability and interpretation of information.

2. In addition to information about customers, the organization must also have access to three other types of information and analysis:

a) *Internal analysis* involves the objective review of internal information pertaining to the firm’s current strategy and performance, as well as the current and future availability of resources.

b) *Competitive intelligence* involves analyzing the capabilities, vulnerabilities, and intentions of competing businesses.

c) *Environmental scanning* involves the analysis of economic, political, legal, technological, and cultural events and trends that may affect the future of the organization and its marketing efforts.

C. Developing Competitive Advantage

1. To be successful, a firm must possess one or more competitive advantages that it can leverage in the market in order to meet its objectives.

2. A *competitive advantage* is something that the firm does better than its competitors that gives it an edge in serving customers’ needs and/or maintaining mutually satisfying relationships with important stakeholders.

D. Marketing Strategy Decisions

## 1. An organization’s marketing strategy describes how the firm will fulfill the needs and wants of its customers.

## 2. A marketing strategy can be composed of one or more marketing programs; each program consists of two elements—a target market or markets and a marketing mix (sometimes known as the four Ps of product, price, place, and promotion).

3. Market Segmentation and Target Marketing

a) Marketers engage in *market segmentation* when they divide the total market into smaller, relatively homogeneous groups or segments that share similar needs, wants, or characteristics.

b) When a marketer selects one or more *target markets*, they identify one or more segments of individuals, businesses, or institutions toward which the firm’s marketing efforts will be directed.

c) *Beyond the Pages* 1.3 discusses how many marketers use online social networking sites—such as Facebook, Twitter, Google+, or LinkedIn—to target specific market segments.

4. Marketing Program Decisions

a) Successful marketing programs depend on a carefully crafted blend of the four major marketing mix elements.

b) The importance of product decisions hinges on the connection between the product and the customers’ needs.

c) Price is the only element of the marketing mix that leads to revenue and profit, has a direct connection with customer demand, is the easiest element of the marketing program to change, and is a major quality cue for customers.

d) Distribution and supply chain issues are among the least apparent decisions made in marketing, particularly with customers.

e) Modern marketing has replaced the term *promotion* with the concept of *integrated marketing communication* (IMC), or the coordination of all promotional activities (media advertising, direct mail, personal selling, sales promotion, public relations, packaging, store displays, website design, personnel) to produce a unified, customer-focused message.

5. Branding and Positioning

a) In order to understand branding, the marketer must have a clear understanding of how the elements of the marketing program work together to create the brand.

b) While product decisions (such as design, style, and features) play a prominent role in branding, so do other program elements such as price/value, availability/exclusivity, and image/reputation of both the firm and its offerings.

E. Social Responsibility and Ethics

1. The role of social responsibility and ethics in marketing strategy has come to the forefront of important business issues in today’s economy.

2. Social responsibility refers to an organization’s obligation to maximize its positive impact on society, while minimizing its negative impact.

3. A major part of this responsibility is marketing ethics, or the principles and standards that define acceptable conduct in marketing activities.

F. Implementation and Control

1. *Marketing implementation*, the process of executing the marketing strategy, is the “how” of marketing planning.

2. Adequate control of marketing activities is essential to ensure that the strategy stays on course and focused on achieving its goals and objectives.

3. The implementation phase of marketing strategy calls into play the 5th P of the marketing program: people.

G. Developing and Maintaining Customer Relationships

1. Developing long-term customer relationships requires that markers shift away from transactional marketing and embrace a relationship marketing approach.

2. The goal of *transactional marketing* is to complete a large number of discrete exchanges with individual customers. In *relationship marketing*, the goal is to develop and maintain long-term, mutually satisfying arrangements where both buyer and seller focus on the value obtained from the relationship. [Exhibit 1.4]

3. Relationship marketing promotes customer trust and confidence in the marketer, who can then develop a deeper understanding of customers’ needs and wants.

V. Taking on the Challenges of Marketing Strategy

A. Challenges and opportunities in planning and developing marketing strategy include:

1. *Change*—Customers change, competitors change, and even the marketing organization changes. Strategies that are highly successful today will not work tomorrow.

2. *People*—Marketing strategy is inherently people-driven. It is about people (inside an organization) trying to find ways to deliver exceptional value by fulfilling the needs and wants of other people (customers, shareholders, business partners, society at large). The people-oriented nature of marketing makes marketing strategy a challenging task.

3. *Lack of rules*—There are very few rules for how to do marketing in specific situations.

4. *Increasing customer expectations and declining satisfaction*—American customers have a passion for instant gratification that is not being met. The American Customer Satisfaction Index indicates that customer satisfication has only recently recovered since 1994. [Exhibit 1.5]

5. *Mature markets (commoditization)*—Many firms compete in markets where product offerings have become commoditized by a lack of differentiation (for example, airlines, wireless phone service, department stores, laundry supplies, household appliances).

6. *Controlling costs*—Businesses have been forced to cut expenses by eliminating products, lowering distribution costs, or downsizing in order to remain competitive.

B. Even the most admired marketers in the world occasionally have problems meeting the demands of the strategic planning process and developing the “right” marketing strategy.

**Questions for Discussion**

1. Increasing customer power is a continuing challenge to marketers in today’s economy. In what ways have you personally experienced this shift in power; either as a customer or as a business person? Is this power shift uniform across industries and markets? How so?

For personal experiences, many students will use the example of buying a car. The unprecedented access to information gives customers a great deal of negotiating power when they enter a dealer’s showroom. From a business perspective, students may argue that customers have power due to the number of supplier options they have today. When a customer can quickly shift his/her business to a competitor, they are in a stronger power position. The power shift is not necessarily uniform across industries. Consumers lack negotiating power in most industries; hence, they exercise their power through their product choices.

2. How concerned are you about privacy and security in today’s economy? Why do so many people, particularly younger people, seem to be unconcerned about privacy? Will these issues still be important in 10 years? Explain.

Most students will state that they are very concerned about privacy and security. However, younger people, unlike their parents, understand that the line between privacy and convenience is a fine one. If consumers want the conveniences of advanced technology, allowing access to personal information is unavoidable. In the future, most consumers won’t think too deeply about privacy and security as technology further penetrates our lives. There is also the potential for significant government regulation in this area.

3. The text argues that marketing possesses very few rules for choosing the appropriate marketing activities. Can you describe any universal rules of marketing that might be applied to most products, markets, customers, and situations?

This is a very challenging question, as most students will have not considered this issue. Even generally accepted statements like “sales increase when you lower the price” are not necessarily true (see Chapter 6). An example that comes close to being a universal rule is “everyone loves a new product.” New products and sales are good ways to draw attention, but are not necessarily situations that increase revenue for the firm.

**Exercises**

1. The pace of change in our economy was frenetic from 1999 to 2001 (the so called dot-com boom) because of rapidly expanding technology and the growth of the Internet. Shortly thereafter, the bubble burst and many dot-com pioneers disappeared. Conduct some research to determine the reasons for the collapse. Most experts contend that a similar type of shakeout is unlikely today. What is different about today’s technology and the Internet that points to this conclusion? How can firms prevent another collapse?

This exercise makes an excellent midterm exam or a term project. In their research students will uncover many factors that led to the dotcom collapse. They will likely be drawn to the financial and management reasons for the problems that occurred. If they focus solely on marketing-related reasons for the collapse, five issues stand out: (1) lack of marketing planning, (2) lack of any real differentiating competitive advantage, (3) lack of backend distribution infrastructure to support operations, (4) lack of an offline brand image, and (5) misguided assumptions about consumer behavior. Most students will argue that a similar shakeout is unlikely because the Internet has evolved (increased interactivity, social networking, wireless, etc.) and that firms today see the Internet as one of several key channels (rather than THE channel). However, astute students will see that some firms are still likely to disappear; mainly because they do not offer a compelling reason for their existence (Yahoo! and AOL are good examples). Firms that are most likely to succeed are those that take a combined offline/online approach.

2. Logon to a metamediary in the automobile metamarket (e.g., www.edmunds.com, www.autos.msn.com, www.kbb.com, or www.carsdirect.com). What aspects of the car buying experience does the metamediary offer? Which aspects of the experience are missing? How does the metamediary overcome these missing aspects?

These metamediaries offer everything needed to purchase a car. However, they do not provide a car buying experience. Many consumers actually enjoy taking test drives and haggling over price. These metamediaries overcome this by catering to the car buying public that prefers the sterile exercise of buying a car to the experience of buying a car. They also provide everything in one place, unlike the traditional experience.

3. Think about all of the exchanges that you participate in on a weekly or monthly basis. How many of these exchanges have their basis in long-term relationships? How many are simple transaction-based exchanges? Which do you find most satisfying? Why?

Answers to this question will vary greatly. Many students will not consider their exchanges to be relational until you ask them how long they have been using the same company/provider. Many exchanges are relational by default (we use the same dry cleaner or gas station continuously without thinking about it). Whether students find transactional or relational exchanges more satisfying will depend on their likes and dislikes.