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WHEN YOU FINISH THIS CHAPTER, YOU SHOULD

1. Know what marketing is and why you should learn about it.
2. Understand the difference between micro-marketing and macro-marketing.
3. Know the marketing functions and why marketing specialists—including intermediaries and facilitators—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).

CHAPTER ONE

Marketing's Value to Consumers, Firms, and Society

When it's time to roll out of bed in the morning, does your Sony alarm clock wake you with a buzzer—or by playing your favorite radio station? Is the station playing rock, classical, or country music—or perhaps a Red Cross ad asking you to contribute blood? Will you slip into your Levi's jeans, your shirt from Abercrombie and Fitch, and your Nikes, or does the day call for your Brooks Brothers interviewing suit? Will breakfast be Lender's Bagels with cream cheese or Kellogg's Frosted Flakes—made with grain from America's heartland—or some extra-large eggs and Oscar Mayer bacon cooked in a Panasonic microwave oven imported from Japan? Will you mix up some Tang instant juice and brew a pot of Maxwell House coffee—or is this a day to meet a friend at the local Starbucks, where you'll pay someone else to fix you a Frappuccino

while you use the Internet connection to log on to MSN.com to check your e-mail? After breakfast, will you head off to school or work in a Toyota Scion, on your Rollerblade inline skates, or on the bus that the city bought from General Motors?

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 China may have little choice about what food they will eat or where their clothing will come from. A consumer in a large city like Tokyo may have many choices but not be familiar with products that have names like Oscar Mayer and Brooks Brothers.

What's more, each element in the descriptions above could be viewed in more detail and through a different lens. Consider, for example, that visit to Starbucks. What exactly is it about Starbucks that makes so many customers so satisfied with the experience? Why do they come back time and again when they could get a cup of coffee almost anywhere, at half the price? Do loyal customers use the Starbucks card because it allows them to participate in sweepstakes and get e-mail notices of in-store promotions and new products? Or is it because the card makes it fast and easy to order and pay? Why does Starbucks offer Internet wireless hot spots at many locations—and, by the way, who dreamed up the idea of calling that tasty icy thing a Frappuccino? Twenty years ago, Starbucks was just another tiny company in Seattle; now it operates over 5,000 coffee bars, has expanded into distribution through supermarkets, and is one of the best-known brand names in the world (yes, even in Tokyo). If this is such a simple (and profitable) business idea, why didn't somebody else think of it earlier? And if the idea is easy to copy now, what does Starbucks do so differently that makes it one of the "Ten Most Admired Companies in America"? And if you were going to build your own marketing success, what would it be and how would you do it?[1]

In this text, we'll answer questions like these. In this chapter, you'll see 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.

MARKETING—WHAT'S IT ALL ABOUT?

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 peddled 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 like Schwinn, Performance, Huffy, and Murray.

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. You can buy a basic bike for less than $50. Or you can spend more than $2,500 for 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 firm should do before and after it decides to produce and sell a bike.

1. Analyze the needs of people who might buy a bike and decide if they want more or different models.
2. Predict what types of bikes—handlebar styles, type of wheels, brakes, and materials—different customers will want and decide which of these people the firm will try to satisfy.
3. Estimate how many of these people will want to buy bicycles, and when.
4. Determine where in the world these bike riders will be and how to get the firm's bikes to them.
5. Estimate what price they are willing to pay for their bikes and if the firm can make a profit selling at that price.
6. Decide which kinds of promotion should be used to tell potential customers about the firm's bikes.

Selling and advertising are important parts of marketing, but modern marketing involves more. For example, to better satisfy its customers' needs and make traveling more enjoyable, this French railroad's service includes door-to-door delivery of the passenger's luggage. The ad says, "Your luggage is old enough to travel by itself. It's up to us to ensure you'd rather go by train."

7. Estimate how many competing companies will be making bikes, what kind, and at what prices.
8. Figure out how to provide warranty 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 the next chapter. 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's crucial role in customer satisfaction

Some people think that if you just produce a good product, customers will be satisfied and your business will be a success. This attitude is reflected in the old saying: "Make a better mousetrap and the world will beat a path to your door."

The "better mousetrap" idea probably wasn't true in Grandpa's time, and it certainly isn't true today. In modern economies, the grass grows high on the path to the Better Mousetrap Factory—if the new mousetrap is not properly marketed.

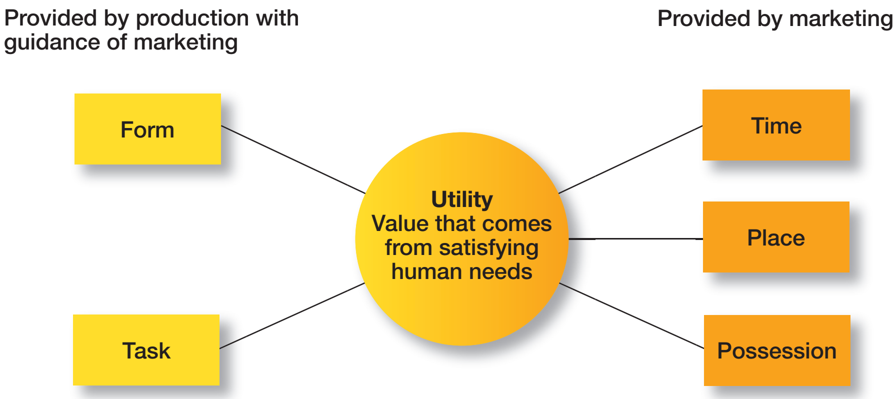
Production and marketing are both important parts of a total business system aimed at providing consumers with need-satisfying goods and services. Together, production and marketing supply five kinds of economic utility—form, task, time, place, and possession utility—that are needed to provide consumer satisfaction. Here, **utility** means the power to satisfy human needs. See Exhibit 1-1.

Customer needs determine utility

Form utility is provided when someone produces something tangible—for instance, a bicycle. **Task utility** is provided when someone performs a task for someone else—for instance, when a bank handles financial transactions. But just producing bicycles or handling bank accounts doesn't result in consumer satisfaction. The product must be something that consumers want or there is no need to be satisfied—and no utility.

This is how marketing thinking guides the production side of business. Marketing focuses on what customers want and should guide what is produced and offered. It doesn't make sense to try to sell goods and services consumers don't want when there are so many things they do want. Let's take our "mousetrap" example a step further.

Exhibit 1-1
Types of Utility and How They Are Provided



Some customers don't want *any kind* of mousetrap. They may want someone else to exterminate the mice for them, or they may live where mice are not a problem.

Even when marketing and production combine to provide form or task utility, consumers won't be satisfied until time, place, and possession utility are also provided.

Time utility means having the product available *when* the customer wants it. And **place utility** means having the product available *where* the customer wants it. Bicycles that stay at a factory don't do anyone any good. Time and place utility are very important for services too. For example, neighborhood health care clinics are very popular because people can walk in as soon as they feel sick, not a week later when their doctor can schedule an appointment.

Possession utility means obtaining a good or service and having the right to use or consume it. Customers usually exchange money or something else of value for possession utility.

We'll look at all the ways that marketing provides utility later.

MARKETING IS IMPORTANT TO YOU

Marketing is important to every consumer

As a consumer, you pay for the cost of marketing activities. In advanced economies, marketing costs about 50 cents of each consumer dollar. For some goods and services, the percentage is much higher. Marketing affects almost every aspect of your daily life. All the goods and services you buy, the stores where you shop, and the radio and TV programs paid for by advertising are there because of marketing. Even your job résumé is part of a marketing campaign to sell yourself to some employer! Some courses are interesting when you take them but never relevant again once they're over. Not so with marketing—you'll be a consumer dealing with marketing for the rest of your life.

Marketing Manager for Consumer Electronics

We've got a new opportunity that should help our business grow into the next decade. Put your college degree and experience in marketing consumer durables to work. Come help us analyze our markets and plan our marketing mix in a logical, creative, and enthusiastic way. This job offers income above industry standards, dynamic colleagues, relocation to desirable midwest suburb, and fast-track upward mobility. Check our website for more detail or reply in confidence, with a copy of your resume, to Box 4953.

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.

Even if you're aiming for a nonmarketing job, knowing something about marketing will help you do your own job better. Throughout the book, we'll discuss ways that marketing relates to other functional areas—and Chapter 20 focuses on those issues. Further, marketing is important to the success of every organization. The same basic principles used to sell soap are also used to "sell" ideas, politicians, mass transportation, health care services, conservation, museums, and even colleges.[2]

Marketing affects standard of living and economic growth

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 and this 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.[3]

HOW SHOULD WE DEFINE MARKETING?

Micro- or macro-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, an art museum, or a family-service agency. This supports the idea of marketing as a set of activities done by an individual organization to satisfy the customers that it serves.

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. A typical Wal-Mart supercenter carries more than 120,000 different items. A society needs some sort of marketing system to organize the efforts of all the producers and middlemen needed to satisfy the varied needs of all its citizens. So marketing is also an important social process.

INTERNET EXERCISE

You can check out the online shopping experience of Wal-Mart on the Web by going to the Wal-Mart home page (www.walmart.com) and clicking on a tab for one of the product categories. How many different manufacturers' products are shown? Would consumers be better off if each manufacturer just sold directly from its own website?

So *marketing is both a set of activities performed by organizations and a social process*. In other words, marketing exists at both the micro and macro levels. Therefore, we will use two definitions of marketing—one for micro-marketing and another for macro-marketing. Micro-marketing looks at customers and the organizations that serve them. Macro-marketing takes a broad view of our whole production–distribution system.

Micro-marketing defined

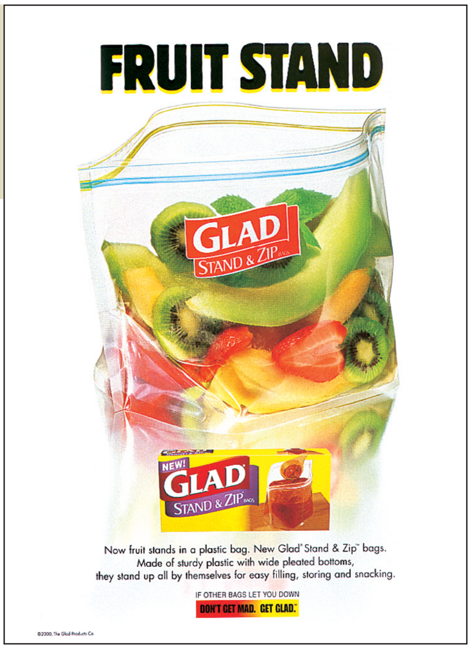
Micro-marketing is the performance of activities that seek to accomplish an organization's objectives by anticipating customer or client needs and directing a flow of need-satisfying goods and services from producer to customer or client.

Let's look at this definition.[4]

Applies to profit and nonprofit organizations

Marketing applies to both profit and nonprofit organizations. Profit is the objective for most business firms. But 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.

The aim of marketing is to identify customers' needs—and to meet those needs so well that the product almost sells itself.



While 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, many executives still think it is. 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 do buy, they'll be satisfied and ready to buy the same way again the next time.

Begins with customer needs

Marketing should begin with potential customer needs—not with the production process. Marketing should try to anticipate needs. And then marketing, rather than production, should determine what goods and services are to be developed—including decisions about product design and packaging; prices or fees; credit and collection policies; use of middlemen; transporting and storing policies; advertising and sales policies; and, after the sale, installation, customer service, warranty, and perhaps even disposal policies.

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**—when 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 may be part of an ongoing relationship, not just a single transaction. When marketing helps everyone in a firm really meet the needs of a customer before and after a purchase, the firm doesn't just get a single sale. Rather, it has a sale and an ongoing *relationship* with the customer. Then, in the future, when the customer has the same need again—or some other need that the firm can meet—other sales will follow. Often, the marketing *flow* of need-satisfying goods and services is not just for a single transaction but rather is part of building a long-lasting relationship that benefits both the firm and the customer.

The focus of this text—management-oriented micro-marketing

Since you are probably preparing for a career in management, the main focus of this text will be on micro-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 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 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.

Although 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 this idea more fully in later chapters.

MACRO-MARKETING

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.[5]

Emphasis is on whole system

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—

Most consumers who drink tea live far from where it is grown. To overcome this spatial separation, someone must first perform a variety of marketing functions, like standardizing and grading the tea leaves, transporting and storing them, and buying and selling them.

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.

Separation between producers and consumers

Effective marketing in an advanced economy is difficult because producers and consumers are often separated in several ways. As Exhibit 1-2 shows, exchange between producers and consumers is hampered by spatial separation, separation in time, separation of information and values, and separation of ownership. You may love your MP3 player, but you probably don't know when or where it was produced or how it got to you. The people in the factory that produced it don't know about you or how you live.

In addition, most firms specialize in producing and selling large amounts of a narrow assortment of goods and services. This allows them to take advantage of mass production with its **economies of scale**—which means that as a company produces larger numbers of a particular product, the cost of each of these products goes down. Yet most consumers only want to buy a small quantity; they also want a wide assortment of different goods and services. These "discrepancies of quantity" and "discrepancies of assortment" further complicate exchange between producers and consumers (Exhibit 1-2). That is, each producer specializes in producing and selling large amounts of a narrow assortment of goods and services, but each consumer wants only small quantities of a wide assortment of goods and services.[6]

Marketing functions help narrow the gap

The purpose of a macro-marketing system is to overcome these separations and discrepancies. The "universal functions of marketing" help do this.

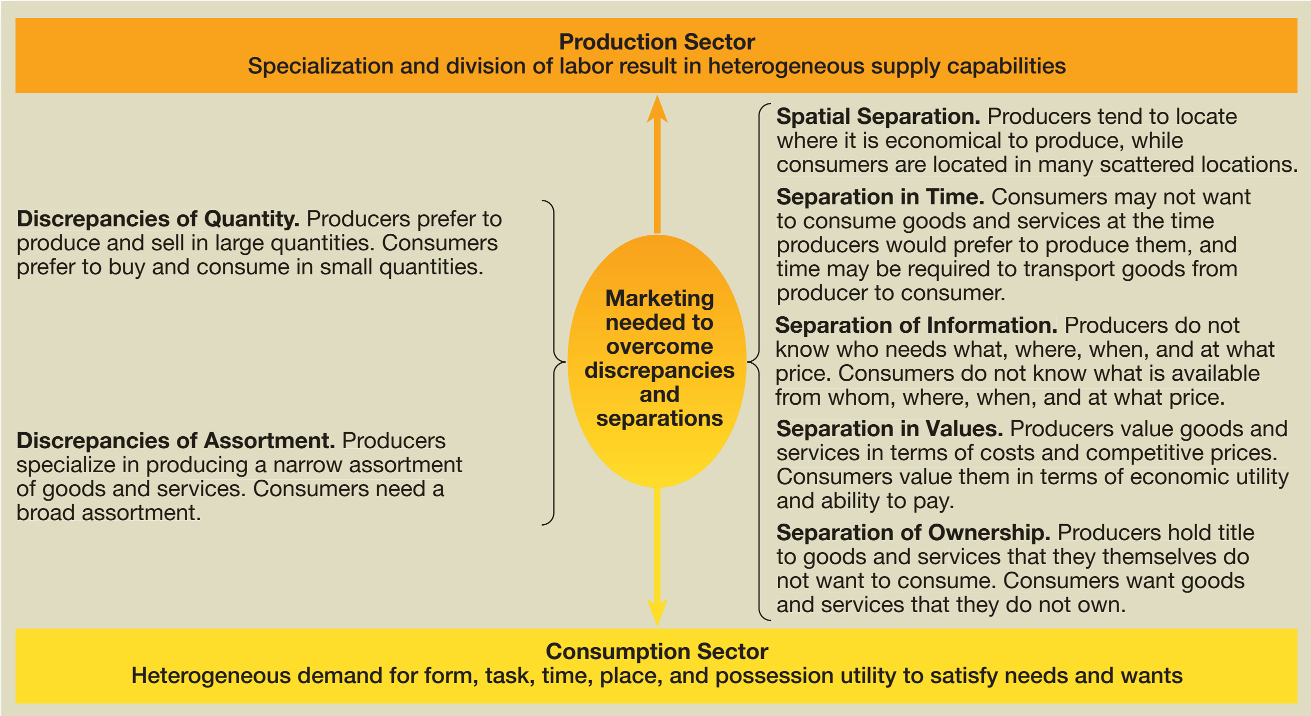
The **universal functions of marketing** are buying, selling, transporting, storing, standardization and grading, financing, risk taking, and market information. They must be performed in all macro-marketing systems. *How* these functions are performed—and *by whom*—may differ among nations and economic 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, and other direct and mass selling methods. 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.

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

Exhibit 1-2 Marketing Facilitates Production and Consumption



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.

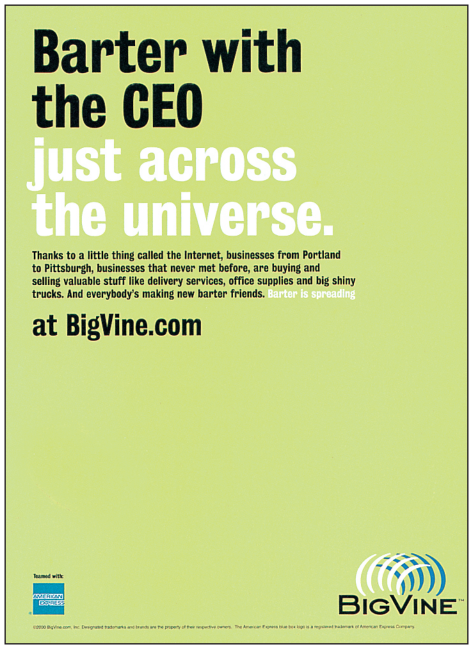
Producers, consumers, and marketing specialists perform functions

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** (or a **middleman**)—someone who specializes in trade rather than production—plays a role in the exchange process. In Chapters 12–13 we'll cover the variety of marketing functions performed by the two basic types of middlemen: retailers and wholesalers. However, you don't need to think about it very long to imagine what it would be like to shop at many different factories for the wide variety of brands of packaged foods that you like rather than at a well-stocked local grocery store. While middlemen must charge for services they provide, this charge is usually offset by the savings of time, effort, and expense that would be involved without an intermediary. So these middlemen can help to make the whole macro-marketing system more efficient and effective.

A wide variety of other marketing specialists may also help smooth exchanges between producers, consumers, or middlemen. These specialists are **facilitators**—firms that provide one or more of the marketing functions other than buying or selling. These facilitators include advertising agencies, marketing research firms, independent product-testing laboratories, Internet service providers, public warehouses, transporting firms, communications companies, and financial institutions (including banks).

Some marketing specialists perform all the functions. Others specialize in only one or two. Marketing research firms, for example, specialize only in the market information function. Further, technology may make a certain function easier to

Intermediaries and facilitators develop and offer specialized services that facilitate exchange between producers and customers.



perform. For example, the buying process may require that a customer first identify relevant sellers and where they are. Even though that might be accomplished quickly and easily with an online search of the Internet, the function hasn't been cut out.

New specialists develop to fill market needs

As the Internet example suggests, new types of marketing specialists develop or evolve when new opportunities arise for someone to make exchanges between producers and consumers more efficient or effective. Such changes can come quickly, as is illustrated by the speed with which firms have adopted e-commerce. **E-commerce** refers to exchanges between individuals or organizations—and activities that facilitate these exchanges—based on applications of information technology. New types of Internet-based intermediaries—like Amazon.com and eBay.com—are helping to cut the costs of many marketing functions. Similarly, Internet service providers like MSN.com and AOL.com that also operate websites are a new type of facilitator. They make it easier for many firms to satisfy their customers with Web-based information searches or transactions. Collectively, these developments have had a significant impact on the efficiency of our macro-marketing system. At the same time, many individual firms take advantage of these innovations to improve profitability and customer satisfaction.[7]

Through innovation, specialization, or economies of scale, marketing intermediaries and facilitators are often able to perform the marketing functions better—and at a lower cost—than producers or consumers can. This allows producers and consumers to spend more time on production, consumption, or other activities—including leisure.

Functions can be shifted and shared

From a macro-marketing viewpoint, all of the marketing functions must be performed by someone—an individual producer or consumer, an intermediary, a facilitator, or, in some cases, even a nation's government. No function can be completely eliminated. *However, from a micro viewpoint, not every firm must perform all of the functions. Rather, responsibility for performing the marketing functions can be shifted and shared in a variety of ways. Further, not all goods and services require all the functions at every level of their production.* "Pure services"—like a plane ride—don't need storing, for example. But storing is required in the production of the plane and while the plane is not in service.

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.

THE ROLE OF MARKETING IN ECONOMIC SYSTEMS

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.[8] 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.

There are two basic kinds of economic systems: planned systems and market-directed systems. Actually, no economy is entirely planned or market-directed. Most are a mixture of the two extremes.

Government planners may make the decisions

In a **planned economic system**, government planners decide what and how much is to be produced and distributed by whom, when, to whom, and why. Producers generally have little choice about what goods and services to produce. Their main task is to meet their assigned production quotas. Prices are set by government planners and tend to be very rigid—not changing according to supply and demand. Consumers usually have some freedom of choice—it's impossible to control every single detail! But the assortment of goods and services may be quite limited. Activities such as market research, branding, and advertising usually are neglected. Sometimes they aren't done at all.

Government planning may work fairly well as long as an economy is simple and the variety of goods and services is small. It may even be necessary under certain conditions—during wartime, drought, or political instability, for example. However, as economies become more complex, government planning becomes more difficult. It may even break down. Countries such as China, North Korea, and Cuba still rely primarily on planned economic systems. Even so, around the world there is a broad move toward market-directed economic systems—because they are more effective in meeting consumer needs.

A market-directed economy adjusts itself

In a **market-directed economic system**, 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."

Price is 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 apparently they feel they are getting at least their money's worth. 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.

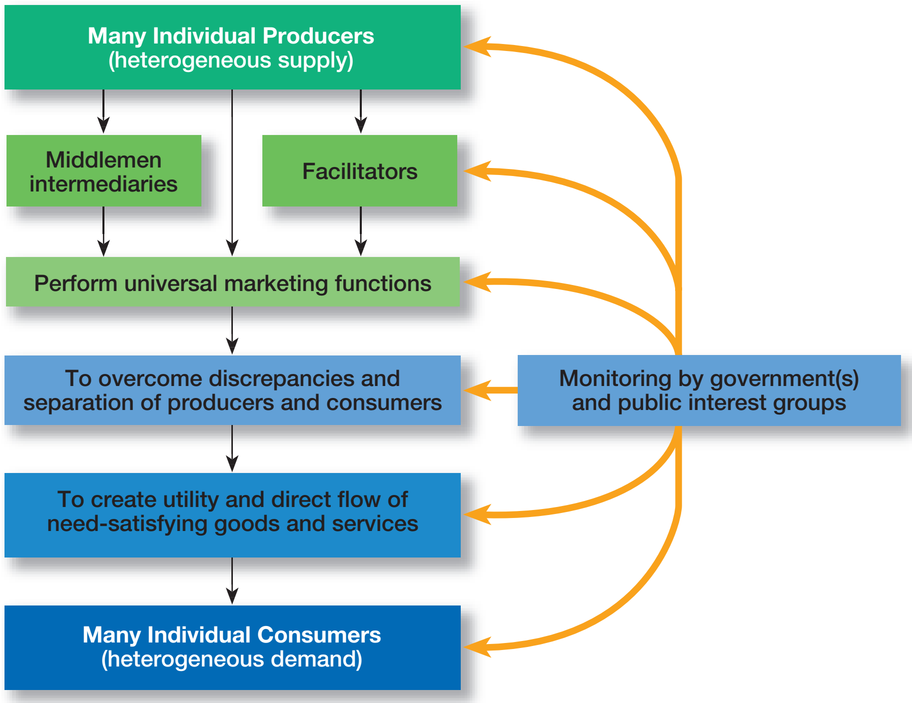


Exhibit 1-3
Model of a Market-Directed Macro-Marketing System

Greatest freedom of choice

Consumers in a market-directed economy enjoy great freedom of choice. They are not forced to buy any goods or services, except those that must be provided for the good of society—things such as national defense, schools, police and fire protection, highway systems, and public-health services. These are provided by the community—and the citizens are taxed to 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.

The role of government

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 exploited, no group unfairly monopolizes markets, and producers deliver the kinds and quality of goods and services they claim to be offering.[9]

Is a macro-marketing system effective and fair?

The effectiveness and fairness of a particular macro-marketing system must be evaluated in terms of that society's objectives. Obviously, all nations don't share the same objectives. For example, Swedish citizens receive many "free" services—like health care and retirement benefits. Goods and services are fairly evenly distributed among the Swedish population. By contrast, North Korea places little emphasis on producing goods and services for individual consumers—and more on military spending. In India the distribution of goods and services is very uneven—with a big gap between the have-nots and the elite haves. Whether each of these systems is judged "fair" or "effective" depends on the objectives of the society.

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COLGATE BRUSHES UP ON MARKETING IN RURAL INDIA

Two-thirds of the people in India still live in rural farm areas. Many don't have life's basic comforts. For example, three out of four use wood as fuel to cook. Only about 40 percent have electricity, and less than 20 percent have piped water. Most can't afford a refrigerator. A person who works in the sugarcane fields, for example, only earns about $1 a day.

While these rural villagers do not have much money, there are about 1 *billion* of them. So they are an important potential market for basic products like toothpaste and shampoo. Marketing managers for Colgate know that. However, many rural Indians have never even held a tube of toothpaste. Rather, they clean their mouths with charcoal powder and the stem of a local plant. But Colgate can't rely on U.S.-style ads—or the local drugstore—to do the selling job. Half of the rural population can't read, and very few have a TV. They also don't go to stores. Rather, once a week the men go to a central market in a nearby village to get basic supplies they can't grow themselves.

In spite of these challenges, in the past decade Colgate has about doubled its sales—and rural Indians are now buying over 17,000 tons of toothpaste a year. What's the trick? Colgate sends a van that is equipped with a generator and video gear into a village on market day. Music attracts the shoppers, and then an entertaining half-hour video (infomercial) explains the benefits (including increased sex appeal!) of using Colgate toothpaste. The van reaches only about 100 people at a time, but many of those who see the video try the toothpaste. Of course, not many want to spend a day's wages to buy a standard tube. So Colgate offers a small (30 gram) tube for six rupees (about 18 cents). Colgate's approach is expensive, but managers in the firm are wisely thinking about the long-run return on the marketing investments.

Where did this idea come from? The video vans were first used in 1987 to spread propaganda for a political party that was denied airtime on state-run television. Between elections the vans were idle, so the owner decided to become a marketing specialist—and offered to rent the vans to firms like Colgate that wanted to reach rural consumers.[10]

So far, we have described how a market-directed macro-marketing system adjusts to become more effective and efficient by responding to customer needs. See Exhibit 1-3. As you read this 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 micro-marketing and a managerial view of the role of marketing in individual organizations.

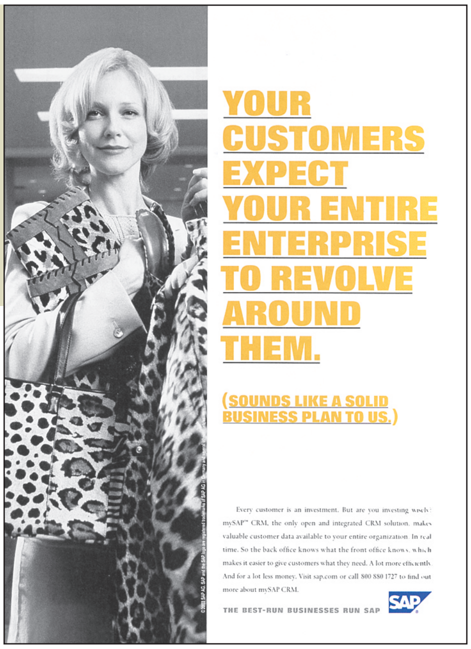
MARKETING'S ROLE HAS CHANGED A LOT OVER THE YEARS

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.

Specialization permitted trade—and middlemen met the need

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

In a firm that has adopted the marketing concept, everyone focuses their effort on satisfying customers at a profit. This isn't just a "feel good" philosophy. The investment made to satisfy customers creates long-run returns.



more difficult, societies moved into the **simple trade era**—a time when families traded or sold their "surplus" output to local middlemen. These specialists resold the goods to other consumers or distant middlemen. This was the early role of marketing—and it is still the focus of marketing in many of the 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 a little over a hundred years ago.

From the production to the sales era

From the Industrial Revolution until the 1920s, most companies were in the production era. 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 China and many of the post-communist 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 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?

The **marketing concept** means that an organization aims *all* its efforts at satisfying its *customers*—at a *profit*. The marketing concept is a simple but very important idea. See Exhibit 1-4.

The marketing concept is not a new idea—it's 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.

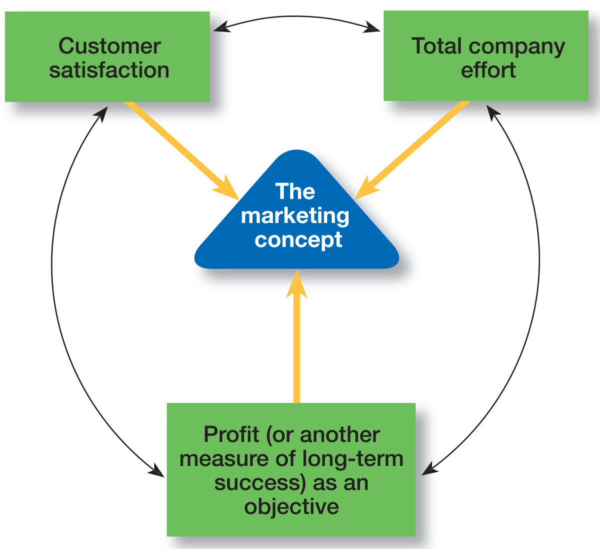
Well-managed firms have replaced this production orientation with a marketing orientation. A **marketing orientation** means trying to carry out the marketing concept. Instead of just trying to get customers to buy what the firm has produced, a marketing-oriented firm tries to offer customers what they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

Three basic ideas are included in the definition of the marketing concept: (1) customer satisfaction, (2) a total company effort, and (3) profit—not just sales—as an objective. These ideas deserve more discussion.

Customer satisfaction guides the whole system

"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—especially when it means changing what they've done in the past. In a typical company 40 years ago, production managers thought mainly about getting out the product. Accountants were interested only in balancing the books. Financial people looked after the company's cash position. And salespeople were mainly concerned with getting orders for whatever product was in the warehouse. Each department thought of its own activity as the center of the business. Unfortunately, this is still true in many companies today.

Exhibit 1-4
Organizations with a Marketing Orientation Carry Out the Marketing Concept



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Work together to do a better job

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 what customers want—instead of what each department would like to do.

In Chapter 20, we'll go into more detail on the relationship between marketing and other functions. Here, however, you should see that the marketing concept provides a guiding focus that *all* departments adopt. It should be a philosophy of the whole organization, not just an idea that applies to the marketing department.

Survival and success require a profit

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 repeat purchases from—existing 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.

ADOPTION OF THE MARKETING CONCEPT HAS NOT BEEN EASY OR UNIVERSAL

The marketing concept was first accepted by consumer products companies such as General Electric and Procter & Gamble. Competition was intense in their markets—and trying to satisfy customers' needs more fully was a way to win in this competition. Widespread publicity about the success of the marketing concept at these companies helped spread the message to other firms.[11]

Producers of industrial commodities—steel, coal, paper, glass, and chemicals—have accepted the marketing concept slowly if at all. Similarly, many traditional retailers have been slow to accept the marketing concept.

Service industries are catching up

Service industries—including airlines, power and telephone companies, banks, investment firms, lawyers, physicians, accountants, and insurance companies—were slow to adopt the marketing concept, too. But in recent years this has changed dramatically. This is partly due to changes in government regulations that forced many of these businesses to be more competitive.

Banks used to be open for limited hours that were convenient for bankers—not customers. Many closed during lunch hour! But now banks stay open longer and also offer more services for their customers—automated teller machines, banking over the Internet, or a "personal banker" to give financial advice.[12]

It's easy to slip into a production orientation

The marketing concept may seem obvious, but it's very easy to slip into a production-oriented way of thinking. For example, a company might rush a new product to market—rather than first finding out if it will fill an unsatisfied need.

Exhibit 1-5 Some Differences in Outlook between Adopters of the Marketing Concept and the Typical Production-Oriented Managers

Topic	Marketing Orientation	Production Orientation
Attitudes toward customers	Customer needs determine company plans.	They should be glad we exist, trying to cut costs and bringing out better products.
An Internet website	A new way to serve customers.	If we have a website customers will flock to us.
Product offering	Company makes what it can sell.	Company sells what it can make.
Role of marketing research	To determine customer needs and how well company is satisfying them.	To determine customer reaction, if used at all.
Interest in innovation	Focus is on locating new opportunities.	Focus is on technology and cost cutting.
Importance of profit	A critical objective.	A residual, what's left after all costs are covered.
Role of packaging	Designed for customer convenience and as a selling tool.	Seen merely as protection for the product.
Inventory levels	Set with customer requirements and costs in mind.	Set to make production more convenient.
Focus of advertising	Need-satisfying benefits of goods and services.	Product features and how products are made.
Role of sales force	Help the customer to buy if the product fits customer's needs, while coordinating with rest of firm.	Sell the customer, don't worry about coordination with other promotion efforts or rest of firm.
Relationship with customer	Customer satisfaction before and after sale leads to a profitable long-run relationship.	Relationship ends when a sale is made.
Costs	Eliminate costs that do not give value to customer.	Keep costs as low as possible.

Many firms in high-technology businesses fall into this trap. Consider the thousands of new dot-com firms that failed. They may have had a vision of what the technology could do, but they didn't stop to figure out all that it would take to satisfy customers or make a profit. Imagine how parents felt when eToys.com failed to deliver online purchases of Christmas toys on time. If you had that experience, would you ever shop there again? What would you tell others?

Take a look at Exhibit 1-5. It shows some differences in outlook between adopters of the marketing concept and typical production-oriented managers. As the exhibit suggests, the marketing concept forces the company to think through what it is doing—and why. And it motivates the company to develop plans for accomplishing its objectives.

THE MARKETING CONCEPT AND CUSTOMER VALUE

Take the customer's point of view

A manager who adopts the marketing concept sees customer satisfaction as the path to profits. And to better understand what it takes to satisfy a customer, it's useful to take the customer's point of view.

A customer may look at a market offering from two views. 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 getting a cup of mocha latte from Starbucks. Our coffee lover might see this as a great-tasting snack, a personal reward, a quick pick-me-up, and even as a way to get to know an attractive classmate. Clearly, different needs are associated with these different benefits. The cost of getting these benefits would include the price of the coffee and any tip, but there might be other nondollar costs. For example, how difficult it will be to park is a convenience cost. Slow service would be an aggravation. And you might worry about another kind of cost if the professor whose exam you have the next day sees you "wasting time" at Starbucks.

Customer value reflects benefits and costs

As this example suggests, both benefits and costs can take many different forms, perhaps ranging from economic to emotional. They also may vary depending on the situation. However, it is the customer's view of the various benefits and costs that is important. 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. A consumer is likely to be more satisfied when the customer value is higher—when benefits exceed costs by a larger margin. On the other hand, a consumer who sees the costs as greater than the benefits isn't likely to become a customer.

Some people think that low price and high customer value are the same thing. But that may not be the case at all. A good or service that doesn't meet a consumer's needs results in low customer value, even if the price is very low. Yet a high price may be more than acceptable when it obtains the desired benefits. Think again about our Starbucks example. You can get a cup of coffee for a much lower price, but Starbucks offers more than *just* a cup of coffee.

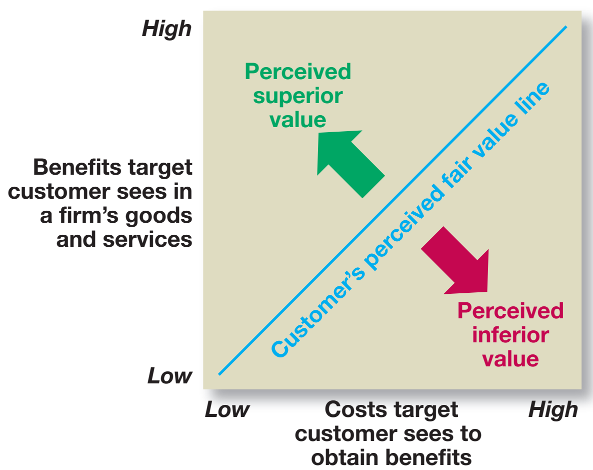
Customer may not think about it very much

It's 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 is 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. So a firm that offers superior customer value is likely to win and keep customers. See Exhibit 1-6.

Exhibit 1-6
Customer Value and Competition



Often the best way to improve customer value, and beat the competition, is to be first to satisfy a need that others have not even considered.

The competition between Pepsi and Coke illustrates this. Coke and Pepsi were spending millions of dollars on promotion—fighting head-to-head for the same cola customers. They put so much emphasis on the cola competition that they missed other opportunities. That gave firms like Snapple the chance to enter the market and steal away customers. For these customers, the desired benefits—and the greatest customer value—came from the variety of a fruit-flavored drink, not from one more cola.

Build relationships with customer value

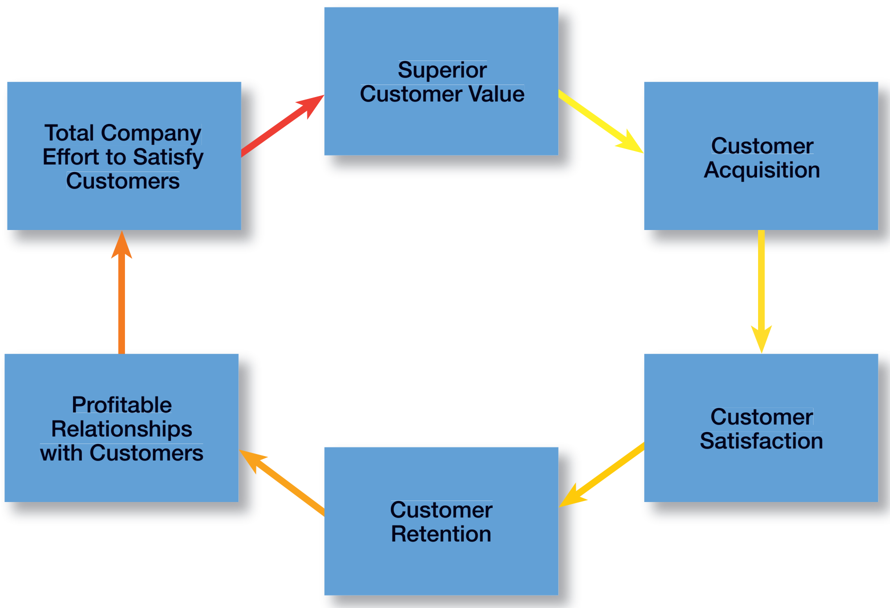
Firms that embrace the marketing concept seek ways to build a profitable long-term relationship with each customer. Even the most innovative firm faces competition sooner or later. And trying to get new customers by taking them away from a competitor is usually more costly than retaining current customers by really satisfying their needs. Satisfied customers buy again and again. This makes their buying job 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." 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 people can't just develop ads that try to convince a customer to buy once. 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. And the same ideas apply whether the issue is meeting promised delivery dates, resolving warranty problems, giving a customer help on how to use a product, or even making it easy for the customer to return a purchase made in error.

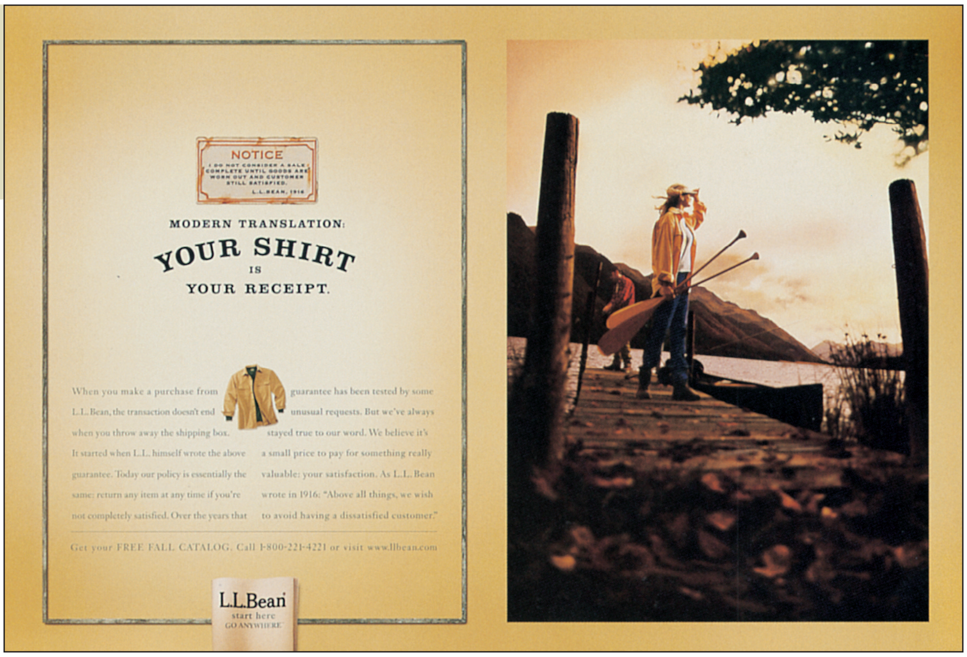
In other words, any time the customer value is reduced—because the benefits to the customer decrease or the costs increase—the relationship is weakened.[13]

Exhibit 1-7 summarizes these ideas. In a firm that has adopted the marketing concept, everyone focuses on customer satisfaction. They offer superior customer value.

Exhibit 1-7
Satisfying Customers with Superior Customer Value to Build Profitable Relationships



L. L. Bean has always focused on customer satisfaction and customer value as a way to build long-term relationships with customers.



That helps attract customers in the first place—and keeps them satisfied after they buy. Because customers are satisfied, they want to purchase from the firm again. The relationship with customers is profitable, so the firm is encouraged to find better ways to offer superior customer value. In other words, when a firm adopts the marketing concept, it wins and so do its customers.

L. L. Bean delivers superior value

L. L. Bean illustrates these ideas. It is a firm that builds enduring relationships with its customers. It offers good customer value to consumers who are interested in enjoying the outdoors. Bean's quality products are well suited to a wide variety of outdoor needs—whether it's clothing for hikers or equipment for campers. The firm field-tests all its products—to be certain they live up to the firm's "100% satisfaction" guarantee. Although Bean operates a retail store in Freeport, Maine, its Internet website (www.llbean.com) and catalogs reach customers all over the world. Bean's computers track what each customer is buying, so new catalogs are mailed directly to the people who are most interested. Customers can call toll-free 24 hours a day—and get whatever advice they need because the salespeople are real experts on what they sell. Bean also makes it easy for consumers to return a product. Bean's prices are not low, but Bean retains its loyal customers because they like the benefits of the relationship.[14]

INTERNET EXERCISE

The L. L. Bean website (www.llbean.com) offers consumers a lot of information, including an "Explore the Outdoors" section with information about international and national parks. Do you think that this helps Bean to build relationships with its target customers?

THE MARKETING CONCEPT APPLIES IN NONPROFIT ORGANIZATIONS

Newcomers to marketing thinking

The marketing concept is as important for nonprofit organizations as it is for business firms. In fact, marketing applies to all sorts of public and private nonprofit organizations—ranging from government agencies, health care organizations, educational institutions, and religious groups to charities, political parties, and fine arts organizations.

Support may not come from satisfied "customers"

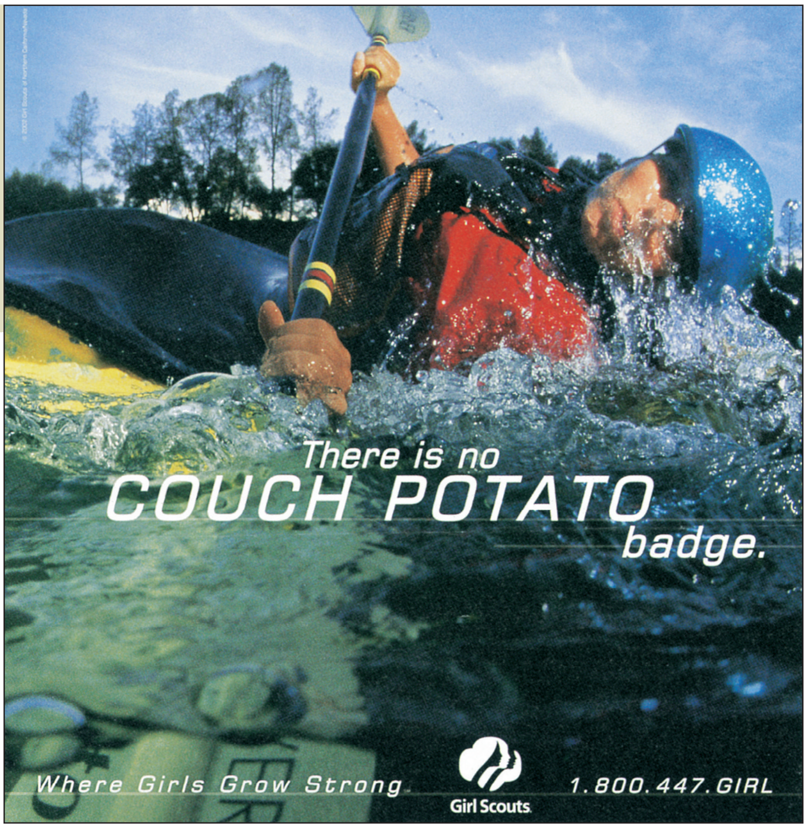
As with any business firm, a nonprofit organization needs resources and support to survive and achieve its objectives. Yet support often does not come directly from those who receive the benefits the organization produces. For example, the World Wildlife Fund protects animals. If supporters of the World Wildlife Fund are not satisfied with its efforts—don't think the benefits are worth what it costs to provide them—they will, and should, put their time and money elsewhere.

Just as most firms face competition for customers, most nonprofits face competition for the resources and support they need. The Air Force faces a big problem if it can't attract new recruits. A shelter for the homeless may fail if supporters decide to focus on some other cause, such as AIDS education.

What is the "bottom line"?

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

Marketing is now widely accepted by many nonprofit organizations, including the Girl Scouts organization. This ad reminds girls, their families, volunteers, and other stakeholders that its programs are fun, up-to-date, and important in helping "girls grow strong."



same way as a firm. And its key measures of long-term success are also different. The YMCA, colleges, symphony orchestras, and the post office, for example, all seek to achieve different objectives and need different measures of success.

Profit guides business decisions because it reflects both the costs and benefits of different activities. In a nonprofit organization, it is sometimes more difficult to be objective in evaluating the benefits of different activities relative to what they cost. However, if everyone in an organization agrees to *some* measure(s) of long-run success, it helps serve as a guide to where the organization should focus its efforts.

May not be organized for marketing

Some nonprofits face other challenges in organizing to adopt the marketing concept. Often no one has overall responsibility for marketing activities. Even when some leaders do the marketing thinking, they may have trouble getting unpaid volunteers with many different interests to all agree with the marketing strategy. Volunteers tend to do what they feel like doing![15]

Nonprofits achieve objectives by satisfying needs

A simple example shows how marketing thinking helped a small town reduce robberies. Initially the chief of police asked the town manager for a larger budget—for more officers and patrol cars. Instead of a bigger budget, the town manager suggested a different approach. She put two officers in charge of a community watch program. They helped neighbors to organize and notify the police of any suspicious situations. They also set up a program to engrave ID numbers on belongings. And new signs warned thieves that a community watch was in effect. Break-ins all but stopped—without increasing the police budget. What the town *really* needed was more effective crime prevention—not just more police officers.

Throughout this book, we'll be discussing the marketing concept and related ideas as they apply in many different settings. Often we'll simply say "in a firm" or "in a business"—but remember that most of the ideas can be applied in *any* type of organization.

THE MARKETING CONCEPT, SOCIAL RESPONSIBILITY, AND MARKETING ETHICS

Society's needs must be considered

The marketing concept is so logical that it's hard to argue 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 example, many Americans want the convenience of disposable products and products in easy-to-use, small-serving packages. But these same "convenient" products and packages often lead to pollution of the environment and inefficient use of natural resources. Should future generations be left to pay the consequences of pollution that is the result of free choice by today's consumers?

Socially responsible marketing managers are concerned about the environmental impact of their decisions, and some firms are finding innovative ways to both help the environment and improve customer satisfaction at the same time.

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 responsibility**—a 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.

Consider, for example, the environmental problems created by CFCs, chemicals that were used in hundreds of critical products, including fire extinguishers, cooling systems, and electronic circuit boards. When it was learned that CFCs deplete the earth's ozone layer, it was not possible to immediately stop producing and using all CFCs. For many products critical to society, there was no feasible short-term substitute. Du Pont and other producers of CFCs worked hard to balance these conflicting demands until substitute products could be found. Yet you can see that there are no easy answers for how such conflicts should be resolved.[16]

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?

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, or sugar-coated cereals because they aren't "good" for 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?

What if it cuts into profits?

Being more socially conscious often seems to lead to positive customer response. For example, many consumers praise Wal-Mart as a "safe haven" for kids to shop because it does not carry CDs that are not suitable for children, lewd videos, plastic guns that look authentic, and video games judged to be too violent. Green Mountain has had a very good response to electric power produced with less pollution (even though the price is higher). And some consumers buy only from firms that certify that their overseas factories don't rely on child labor.[17]

Yet as the examples above show, there are times when being socially responsible conflicts with a firm's profit objective. Concerns about such conflicts have prompted critics to raise the basic question: Is the marketing concept really desirable?

Many socially conscious marketing managers are trying to resolve this problem. 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

Certainly some concerns about social responsibility and marketing arise because some individual firm or manager was intentionally unethical and cheated the market. Of course, a manager cannot be truly consumer-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 some individual manager does not share the same marketing ethics as others in the organization. One person operating alone can damage a firm's reputation and even survival.

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 1-8—sets specific ethical standards for many aspects of marketing.[18]

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 some firm personal opinions about what is and is not ethical in micro-marketing activities.[19]

Fortunately, the prevailing practice of most businesspeople is to be fair and honest. However, not all criticisms of marketing focus on ethical issues.

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 complaints about marketing are summarized in Exhibit 1-9. Think about these criticisms and whether you agree with them or not. What complaints do you have that are not covered by one of the categories in Exhibit 1-9?

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

Exhibit 1-8 Code of Ethics, American Marketing Association

CODE OF ETHICS

Members of the American Marketing Association (AMA) are committed to ethical professional conduct. They have joined together in subscribing to this Code of Ethics embracing the following topics:

Responsibilities of the Marketer

Marketers must accept responsibility for the consequences of their activities and make every effort to ensure that their decisions, recommendations, and actions function to identify, serve, and satisfy all relevant publics: customers, organizations and society.

Marketers' professional conduct must be guided by:

1. The basic rule of professional ethics: not knowingly to do harm;
2. The adherence to all applicable laws and regulations;
3. The accurate representation of their education, training and experience; and
4. The active support, practice and promotion of this Code of Ethics.

Honesty and Fairness

Marketers shall uphold and advance the integrity, honor, and dignity of the marketing profession by:

1. Being honest in serving consumers, clients, employees, suppliers, distributors and the public;
2. Not knowingly participating in conflict of interest without prior notice to all parties involved; and
3. Establishing equitable fee schedules including the payment or receipt of usual, customary and/or legal compensation for marketing exchanges.

Rights and Duties of Parties in the Marketing Exchange Process

Participants in the marketing exchange process should be able to expect that:

1. Products and services offered are safe and fit for their intended uses;
2. Communications about offered products and services are not deceptive;
3. All parties intend to discharge their obligations, financial and otherwise, in good faith; and
4. Appropriate internal methods exist for equitable adjustment and/or redress of grievances concerning purchases.

It is understood that the above would include, but is not limited to, the following responsibilities of the marketer:

In the area of product development and management,

- disclosure of all substantial risks associated with product or service usage;
- identification of any product component substitution that might materially change the product or impact on the buyer's purchase decision;
- identification of extra-cost added features.

In the area of promotions,

- avoidance of false and misleading advertising;
- rejection of high pressure manipulations, or misleading sales tactics;
- avoidance of sales promotions that use deception or manipulation.

In the area of distribution,

- not manipulating the availability of a product for purpose of exploitation;
- not using coercion in the marketing channel;
- not exerting undue influence over the reseller's choice to handle a product.

In the area of pricing,

- not engaging in price fixing;
- not practicing predatory pricing;
- disclosing the full price associated with any purchase.

In the area of marketing research,

- prohibiting selling or fund raising under the guise of conducting research;
- maintaining research integrity by avoiding misrepresentation and omission of pertinent research data;
- treating outside clients and suppliers fairly.

Organizational Relationships

Marketers should be aware of how their behavior may influence or impact on the behavior of others in organizational relationships. They should not demand, encourage or apply coercion to obtain unethical behavior in their relationships with others, such as employees, suppliers or customers.

1. Apply confidentiality and anonymity in professional relationships with regard to privileged information;
2. Meet their obligations and responsibilities in contracts and mutual agreements in a timely manner;
3. Avoid taking the work of others, in whole, or in part, and represent this work as their own or directly benefit from it without compensation or consent of the originator or owner;
4. Avoid manipulation to take advantage of situations to maximize personal welfare in a way that unfairly deprives or damages the organization or others.

Any AMA member found to be in violation of any provision of this Code of Ethics may have his or her Association membership suspended or revoked.

Exhibit 1-9 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.
- Packaging and labeling are often confusing and deceptive.
- Middlemen 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.
- Service stinks, 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 want.
- 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.

support for consumer protection laws proves that not all consumers feel they are being treated like royalty.

As you consider the various criticisms of marketing, keep in mind that not all of them deal with the marketing practices of specific firms. Some of the complaints about marketing really focus on the basic idea of a market-directed macro-marketing system—and these criticisms often occur because people don't understand what marketing is—or how it works.[20] As you go through this book, we'll discuss some of these criticisms. Then in our final chapter, we will return to a more complete appraisal of marketing in our consumer-oriented society.

CONCLUSION

In this chapter, we highlighted the value of marketing for consumers, firms, and society. There are two levels of marketing: micro-marketing and macro-marketing. Micro-marketing focuses on the activities of individual firms. Macro-marketing is concerned with the way the whole marketing system works in a society or economy. We discussed the functions of marketing and who performs them, including marketing specialists who serve as intermediaries between producers and consumers and other specialists who are facilitators. We explained how a market-directed economy works, through the macro-marketing system, to provide consumers with choices. We introduced macro-marketing in this chapter, and we'll consider macro-marketing issues throughout the text. But the major thrust of this book is on micro-marketing.

The marketing concept provides direction to a marketing-oriented firm. The marketing concept stresses that the company's efforts should focus on satisfying some target customers—at a profit. Production-oriented firms tend to forget this. The various departments within a production-oriented firm let their natural conflicts of interest get in the way of customer satisfaction. Satisfaction relates to customer value, and superior customer value is crucial in attracting customers and in building beneficial long-term relationships with them.

We also covered ways that social responsibility and marketing ethics relate to the marketing concept, and ended with the criticisms of marketing—both of the way individual firms work and of the whole macro system.

By learning more about market-oriented decision making, you will be able to make more efficient and socially responsible decisions. This will help improve the performance of individual firms and organizations (your employers). And eventually it will help our macro-marketing system work better. In the next chapter, we introduce a marketing strategy planning process that is the framework for ideas developed throughout the rest of the text—and that will guide your marketing thinking in the future.

KEY TERMS

production, 5	utility, 5	task utility, 5
customer satisfaction, 5	form utility, 5	time utility, 6

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place utility, 6
possession utility, 6
innovation, 7
micro-marketing, 7
pure subsistence economy, 8
macro-marketing, 9
economies of scale, 10
universal functions of marketing, 10
buying function, 10
selling function, 10
transporting function, 10
storing function, 10
standardization and grading, 10
financing, 10
risk taking, 10
market information function, 11
intermediary (or middleman), 11
facilitators, 11
e-commerce, 12
economic system, 13
planned economic system, 13
market-directed economic system, 13
simple trade era, 16
production era, 16
sales era, 16
marketing department era, 16
marketing company era, 17
marketing concept, 17
production orientation, 17
marketing orientation, 17
customer value, 20
micro-macro dilemma, 24
social responsibility, 25
marketing ethics, 26

QUESTIONS AND PROBLEMS

1. List your activities for the first two hours after you woke up this morning. Briefly indicate how marketing affected your activities.
2. It is fairly easy to see why people do not beat a path to a mousetrap manufacturer's door, but would they be similarly indifferent if some food processor developed a revolutionary new food product that would provide all necessary nutrients in small pills for about $100 per year per person?
3. If a producer creates a really revolutionary new product and consumers can learn about it and purchase it at a website on the Internet, is any additional marketing effort really necessary? Explain your thinking.
4. Explain, in your own words, why this text emphasizes micro-marketing.
5. Distinguish between macro- and micro-marketing. Then explain how they are interrelated, if they are.
6. Refer to Exhibit 1-2, and give an example of a purchase you made recently that involved separation of information and separation in time between you and the producer. Briefly explain how these separations were overcome.
7. Describe a recent purchase you made. Indicate why that particular product was available at a store and, in particular, at the store where you bought it.
8. Define the functions of marketing in your own words. Using an example, explain how they can be shifted and shared.
9. Online computer shopping at websites on the Internet makes it possible for individual consumers to get direct information from hundreds of companies they would not otherwise know about. Consumers can place an order for a purchase that is then shipped to them directly. Will growth of these services ultimately eliminate the need for retailers and wholesalers? Explain your thinking, giving specific attention to what marketing functions are involved in these "electronic purchases" and who performs them.
10. Explain why a small producer might want a marketing research firm to take over some of its information-gathering activities.
11. Distinguish between how economic decisions are made in a planned economic system and how they are made in a market-directed economy.
12. Would the functions that must be provided and the development of wholesaling and retailing systems be any different in a planned economy from those in a market-directed economy?
13. Explain why a market-directed macro-marketing system encourages innovation. Give an example.
14. Define the marketing concept in your own words, and then explain why the notion of profit is usually included in this definition.
15. 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.
16. Distinguish between production orientation and marketing orientation, illustrating with local examples.
17. Explain why a firm should view its internal activities as part of a total system. Illustrate your answer for (*a*) a large grocery products producer, (*b*) a plumbing wholesaler, (*c*) a department store chain, and (*d*) a cell phone service.

18. 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.

19. 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.

20. 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.

21. A committee of the American Marketing Association defined marketing as "the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational objectives." Does this definition consider macro-marketing? Explain your answer.

SUGGESTED CASES

1. McDonald's "Seniors" Restaurant

2. Healthy Foods, Inc.

COMPUTER-AIDED PROBLEM

1. **Revenue, Cost, and Profit Relationships**

This problem introduces you to the computer-aided problem (CAP) software—which is on the CD that accompanies this text—and gets you started with the use of spreadsheet analysis for marketing decision making. This problem is 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. Instructions for the software are available at the end of this text.

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 nonprofit 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 Cline 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 $5.00, but Sue 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

$$\text{Revenue} = (\text{Selling price}) \times (\text{Quantity sold})$$

$$\text{Profit} = (\text{Revenue}) - (\text{Total cost})$$

Use the program to answer the questions below. Record your answers on a separate sheet of paper.

a. From the Spreadsheet Screen, how much revenue does Sue expect from calendars? How much revenue from notebooks? How much profit will the store earn from calendars? From notebooks?

b. If Sue increases the price of her calendars to $6.00 and still sells the same quantity, what is the expected revenue? The expected profit? (Note: Change the price from $5.00 to $6.00 on the spreadsheet and the program will recompute revenue and profit.) On your sheet of paper, show the calculations that confirm that the program has given you the correct values.

c. Sue is interested in getting an overview of how a change in the price of notebooks would affect revenue and profit, assuming that she sells all 6,000 notebooks she is thinking of ordering. Prepare a table—on your sheet of paper—with column headings for three variables: selling price, revenue, and profit. Show the value for revenue and profit for different possible selling prices for a notebook—starting at a minimum

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price of $1.60 and adding 8 cents to the price until you reach a maximum of $2.40. At what price will selling 6,000 notebooks contribute $5,400.00 to profit? At what price would notebook sales contribute only $1,080.00? (Hint: Use the What If analysis feature to compute the new values. Start by selecting "selling price" for notebooks as the value to change, with a minimum value of $1.60 and a maximum value of $2.40. Select the revenue and profit for notebooks as the values to display.)

For additional questions related to this problem, see Exercise 1-5 in the *Learning Aid for Use with Basic Marketing,* 15th edition.