



CONTEMPORARY MARKETING

Boone & Kurtz

Contemporary Marketing

19th Edition

Louis E. Boone

David L. Kurtz , University of Arkansas

Erin Joyner *SVP, Higher Education & Skills Product*

Michael Schenk *VP, Higher Education & Skills Product*

Joe Sabatino *Product Director*

Heather Thompson *Product Manager*

Juleah Morehouse *Product Assistant*

Megan Guiliani *Learning Designer*

Amanda White *Content Manager*

Kristin Hinz *Digital Delivery Lead*

Kristen Hurd *Director, Marketing*

Audrey Wyrick *Marketing Manager*

Diane Garrity *IP Analyst*

Nick Barrows *IP Project Manager*

SPi Global *Production Service*

Bethany Bourgeois *Designer*

Copyright Statement

Contemporary Marketing

COPYRIGHT © 2022, 2019 Cengage Learning, Inc.

WCN: 02-600-296

ALL RIGHTS RESERVED. No part of this work covered by the copyright herein may be reproduced or distributed in any form or by any means, except as permitted by U.S. copyright law, without the prior written permission of the copyright owner.

Unless otherwise noted, all content is © Cengage

For product information and technology assistance, contact us at **Cengage Customer & Sales Support, 1-800-354-9706 or support.cengage.com.**

For permission to use material from this text or product, submit all requests online at www.cengage.com/permissions

Library of Congress Control Number: 2021902395

Soft-cover Edition ISBN: 978-0-357-46170-9

Loose-leaf Edition ISBN: 978-0-357-46171-6

Cengage

200 Pier 4 Boulevard

Boston MA 02210

USA

Cengage is a leading provider of customized learning solutions with employees residing in nearly 40 different countries and sales in more than 125 countries around the world. Find your local representative at www.cengage.com.

To learn more about Cengage platforms and services, register or access your online learning solution, or purchase materials for your course, visit www.cengage.com

Preface

The *Contemporary Marketing* Resource Package

Since the first edition of this book was published, *Contemporary Marketing* has continued improving on its mission of equipping students and instructors with the most comprehensive collection of learning tools, teaching materials, and innovative resources available. The upgraded 19th edition delivers the most practical, technologically advanced, user-friendly resource package on the market.

Upgrades to This Edition

After a major overhaul of the 18th edition of *Contemporary Marketing*, the 19th edition builds on the application-based format to enrich student learning. Based on extensive industry research, student feedback, and collaboration with marketing subject matter experts nationwide, the 19th edition focuses on our goal for students to “learn it today and use it tomorrow.” Content is focused on practical, real-world skills that marketing professionals use on a regular basis. Additionally, the narrative is streamlined, concentrating on the most relevant and current concepts discussed in depth to provide students a thorough understanding of each. The result is that students learn more in less time.

Each section features opening and closing examples that tie directly to the learning objective and demonstrate concepts in action. This format increases comprehension and retention of the core content. Finally, examples throughout the text have been researched and refreshed to reflect current trends in marketing and business.

xvii

Certified Test Bank Powered by Cognero

Containing more than 2,500 questions, this Test Bank has been thoroughly verified to ensure accuracy. The Test Bank includes true/false, multiple-choice, essay, and matching questions. Each question in the Test Bank is labeled with text objective, level of difficulty, and A-heads. Each question is also tagged to Interdisciplinary Learning Outcomes, Marketing Disciplinary Learning Outcomes, and Bloom’s Taxonomy. The Test Bank is available via Cognero, can be loaded to your SSO account, or PDFs can be found on the product support website.

Cengage Learning Testing Powered by Cognero is a flexible, online system that allows you to:

- author, edit, and manage test bank content from multiple Cengage Learning solutions
- create multiple test versions in an instant
- deliver tests from your LMS, your classroom, or wherever you want

xviii

Start Right Away!

Cengage Learning Testing Powered by Cognero works on any operating system or browser.

- No special installs or downloads needed
- Create tests from school, home, the coffee shop—anywhere you have Internet access

What Will You Find?

- Simplicity at every step. A simple interface features drop-down menus and familiar, intuitive tools that take you through content creation and management with ease.
- Full-featured test generator. Create ideal assessments with your choice of 15 question types (including true/false, multiple choice, opinion scale/likert, and essay). Multi-language support, an equation editor, and unlimited metadata help ensure your tests are complete and compliant.
- Cross-platform capability. Import and export content into other systems.

Contemporary Marketing, 19th Edition Website

Our text website is filled with a whole set of useful tools. Instructors will find all the key instructor resources in electronic format: Test Bank, PowerPoint collections, and Instructor’s Manual.

In Conclusion

We would like to thank Jeff Perlot (Green River College) for his contagious energy, innovation, and leadership of the great team of contributors involved in this re-invention: Amy Handlin (Monmouth University), Jill Attaway (Professor Emeritus at Illinois State University), R.J. Amador (Green River College), and Stephanie Hall (Cengage Learning). We are grateful to this team for their collective knowledge and creativity. Thank you to all contributors who have helped produce another *Contemporary Marketing* winner.

Part 1. Designing Customer-Oriented Marketing Strategies

Chapter 1. Marketing: The Art and Science of Satisfying Customers

Introduction

2



Source: Digital Trends

Learning Objectives

- 1.1 Summarize how marketing creates value through the four types of utility.
- 1.2 Describe the four variables of the marketing mix.
- 1.3 Contrast the focus of marketing activities during the five eras of marketing history.
- 1.4 Explain how relationship marketing can move customers up the loyalty ladder.
- 1.5 Differentiate the six categories of marketing.
- 1.6 Identify the eight functions of marketing physical goods.
- 1.7 Given a description of a company’s marketing mix, classify the elements of the marketing mix and the category of marketing.

3

Learn It Today . . . Use It Tomorrow

Inspiration came to brothers Shep and Ian Murray, then in their 20s, when they started meeting for lunch and complaining about their desk jobs and the business attire that went with them. They decided to go into business for themselves and settled on a product they knew nothing about: neckties. If they sold enough ties, they reasoned, they could stop wearing them.

Today, more than 15 years later, Connecticut-based Vineyard Vines has grown into a multimillion-dollar business. Those familiar with the firm’s success credit the Murrays’ understanding of their customers’ needs and their determination to make customers happy. The brothers say they’re interested in dressing people not merely to go to work but rather to “take some fun to work.” Their company sells clothes, but also a carefree lifestyle image many people want to adopt.

For instance, one of Shep and Ian’s first decisions, when they quit their jobs and began selling ties out of their cars, was to create whimsical designs that reflected the happy summers they spent on Martha’s Vineyard while growing up. Thus was born the sporty vacation theme that runs through all their bright pastel designs, featuring lobster pots, sailboats, whales, crabs, and sports paraphernalia such as tennis racquets, golf balls, and hockey sticks. Customers who would rather be sailing, swimming, golfing, or fishing are quickly drawn to the light-hearted images and the lifestyle they conjure up.

The story of Vineyard Vines reflects several foundations of contemporary marketing. Can you see how they bring the four types of utility (and value) to customers? Can you see how they utilize the four variables of the marketing mix? And can you see how their approach reflects a modern version of marketing, one that didn’t always exist in past eras? If not, you’ll learn all about these things in this chapter.

Source: www.forbes.com www.prnewswire.com hbr.org

1-1. What Is Marketing?

LO 1.1

Summarize how marketing creates value through the four types of utility.

Opening Example

In 2015, Pepsi beat out Diet Coke to become the second most popular soda in the United States. While Coke remained the overall market leader, Pepsi's accomplishment startled a soda world that had believed Coca-Cola's diet beverage was invulnerable in the number-two spot. Pepsi's taste and fizz hadn't changed, and the price was the same as Diet Coke. So how did Pepsi do it? And what can this victory in the soda wars teach us about marketing?

1-1a. Learning It: What Is Marketing?

The goal of marketing any good or service is to boost what marketers call utility- the power of a good or service to satisfy the wants of consumers. The four basic kinds of utility are form, time, place, and ownership (see [Exhibit 1.1](#)).

Exhibit 1.1 Four Types of Utility			
Type	Description	Examples	How this brings value
Form	Conversion of raw materials into finished goods and services	Dinner at Applebee’s Samsung Galaxy phone Levi jeans	Satisfies hunger Allows for easier communication Provides clothing
Time	Availability of goods and services when consumers want them	Dental appointment Digital photographs 1-800-PetMeds guarantee UPS Next Day Air delivery	Allows customers to satisfy their wants and needs without waiting
Place	Availability of goods and services at convenient locations	Technicians available at an auto repair facility Onsite day care Banks in grocery stores	Provides convenience Allows customers to satisfy their needs and wants without continued searching
Ownership (possession)	Ability to transfer title to products from marketer to buyer	Retail sales (in exchange for currency, credit, or debit card payment)	Allows customer control over their purchase Provides pride of ownership

Form utility is created when the company converts raw materials into finished goods and services. Soda makers mix just the right amounts of flavoring, sweeteners, and carbonation to deliver appealing drinks. With a ship and the ocean, a captain and staff, food and entertainment, Royal Caribbean creates a cruise. Whenever a company produces a good or service, they are offering form utility to consumers.

4

Time and place utility occur when consumers find goods and services available *when* and *where* they want to purchase them. Redbox takes advantage of time and place utility by positioning its kiosks for renting movies and games in high-traffic spots like supermarkets and drugstores.

The transfer of title to goods or services at the time of purchase creates ownership utility. When you buy a TV and take it home, or when you buy an airline ticket and fly on a plane, you receive the value that comes from taking ownership of that good or service. This might seem obvious, but ownership utility helps to drive the emotional connection you feel with a product, which can highly influence your purchasing decisions.

Designing and marketing products that satisfy the wants and needs of consumers is the foundation for marketing. By providing these different types of utility to customers, marketers provide value. In fact, the very definition of marketing is the process for creating, communicating, and delivering value to customers. Ultimately, it’s that value customers are paying for, whether it’s a product that performs a particular function or one that provides customers a particular feeling.

1-1b. Closing Example

So how did Pepsi beat Diet Coke? As we’ve said, the product’s form utility—the taste and fizz of the soda itself—never changed. Pepsi must have brought value to customers in other ways.

One successful tactic was that Pepsi won fans with its innovative “Like Machines.” Consumers who “liked” the PepsiCo Facebook page, either on their smartphones or on the vending machine’s touch screen, received a free can of soda on the spot. This created time and place

utility for the customer, while also creating word-of-mouth advertising and social media buzz.

The brand also used a new advertising campaign, “Taste Life Differently,” to build an

emotional connection with drinkers. Remember that this emotional connection is what gives

ownership utility value. Pepsi’s overall approach enhanced time, place, and ownership utilities for customers, which in turn enhanced the emotional appeal and value of buying the product.



► Details

All content copyright © Gizmag 2003-2014

PepsiCo’s interactive vending machine allows you to “like” their Facebook page and receive a free sample of Pepsi products.

1-2. Elements of Marketing Strategy

LO 1.2

Describe the four variables of the marketing mix.

Opening Example

Did you know that Starbucks began as just one little store in Seattle? Today, Starbucks coffeehouses are familiar neighborhood features across America's cities and towns—as well as in airports, on highways, maybe even on your campus. In fact, the company boasts over 28,000 outlets in more than 70 countries.

Back in Seattle, company CEO Howard Schultz sourced the world's highest-quality coffee beans to create a unique product. But developing a great beverage was just the beginning. What other marketing strategies did Schultz use to build his powerhouse brand?

1-2a. Learning It: Elements of Marketing Strategy

The basic elements of a marketing strategy consist of:

1. The target market.
2. The marketing mix variables of product, price, distribution, and promotion that combine to satisfy the needs of the target market.

A customer-driven organization begins its overall strategy with a detailed description of its target market- the group of people toward whom the firm aims its marketing efforts and ultimately its merchandise. Howard Schultz identified a target audience eager to purchase specialty coffee: relatively high-income professional men and women, living in urban or affluent suburban areas, who not only appreciated a quality beverage but also favored socially responsible, environmentally friendly businesses. * Some companies exclusively target household consumers; for example, Kraft Foods (now called Mondelez International) is the maker of Oreo cookies and JELL-O. Other companies, such as aircraft manufacturer Boeing, market their products primarily to business buyers like Delta Airlines and government purchasers. Still other firms provide goods and services to retailers and wholesalers. In every instance, however, marketers pinpoint their target markets as accurately as possible.

1-2b. Marketing Mix Variables

After marketers select a target market, they direct their company’s activities toward profitably satisfying that segment. Marketing strategies are built around four variables: product, price, distribution, and promotion, as shown in [Exhibit 1.2](#). Together, these variables are called the [marketing mix](#). The four variables of the marketing mix are often called the 4 P’s of marketing: product, price, place, and promotion. Let’s look at each of the four in detail.

6



Product

Fundamentally, [product](#) refers to a good, service, or idea. But “product” is a broader concept that also encompasses other aspects of the consumer’s purchase. Product strategy may involve decisions about:

- customer service
- package design
- brand names
- trademarks, patents, and warranties

Starbucks believes in superior customer service; its “baristas” are specially trained to create a personalized buying experience. The company also pursues continuous product innovation; in addition to its popular line of espresso drinks, coffee connoisseurs will soon be able to choose from specially roasted Reserve coffees they can buy from a scoop bar. *

Procter & Gamble, maker of Tide laundry detergent, boosted the brand’s sales when it introduced Tide Pods, an innovative single-use package that combined detergent, stain remover, and brightener. *



► Details

Sorbis/Shutterstock.com

Starbucks’ product encompasses not just their various drinks and food choices, but their friendly baristas, their brand name, and the design of their stores.

Price

[Price strategy](#) is the method of setting profitable and justifiable prices. One of the many factors that influence a marketer’s pricing strategy is competition. While Starbucks has always charged premium prices, the company moderated its price increases after Dunkin’ and McDonald’s introduced cheaper brands of specialty coffee. * In addition to offering discounts to loyal customers who use its mobile payment app, some new Starbucks stores will also offer Reserve products at a lower price. *

Sometimes conditions in the external marketing environment cause difficulties in pricing strategies. Political unrest overseas, the soaring price of fuel, or a freeze that destroys crops could all affect the price of goods and services. For instance, Hershey’s may need to increase the price of its popular Kisses chocolate candy if cocoa farmers have a poor harvest.

If the economy is booming, consumers generally have more confidence and are willing to shop more frequently and pay more for goods. But when the economy slows, consumers look for bargains—they want high quality at low prices. It is a challenge for marketers to strike the right balance to make enough profits to survive and grow. Currently, sales at luxury retailers such as Saks and Abercrombie & Fitch are down. But sales at local dollar stores and larger discount retailers are stronger—sometimes even luring shoppers away from traditional giants such as Target and Walmart. *

7

Distribution (Also Called “Place”)

8

Marketers develop distribution strategies to ensure that consumers find their products in the proper quantities at the right times and places. Starbucks is building an increased number of drive-through and express stores. It also distributes bottled drinks and K-cups through grocery outlets.

[Distribution](#) decisions involve modes of transportation, warehousing, inventory control, order processing, and selection of marketing channels. Marketing channels are made up of institutions such as retailers and wholesalers—intermediaries that may be involved in a product’s movement from producer to final consumer.

Technology continually opens new channels of distribution in many industries. For example, Amazon is experimenting with home delivery via drones. *

Promotion

[Promotion](#) is broadly defined as communication to a firm’s buyers about their products. Organizations use various methods for sending messages about their goods, services, and ideas. They may communicate directly through salespeople or indirectly through advertisements.

Sales promotion is a promotional tactic that entails offering incentives like a reduced price for a limited time, or a brand-consistent giveaway. During a recent promotion to celebrate National Coffee Day, Starbucks, Dunkin’ and other retailers offered free cups of coffee and deep discounts on packaged coffee and K-cups. * McDonald’s has long utilized Happy Meals—which combine small food portions with a toy—as a promotion targeted at parents with young children.

In developing a promotional strategy, marketers blend the various elements of promotion to communicate most effectively with their target market. Many companies use an approach called integrated marketing communications (IMC) to coordinate all promotional activities so that the consumer receives a unified and consistent message. Consumers might see advertisements, receive e-mail updates, discount coupons, and any number of other types of marketing communications—all featuring the same theme and recognizable visual elements. Starbucks’ famous green-and-white mermaid logo appears in its stores and ads and on all its cups, packages, loyalty rewards cards, and digital apps.

1-2c. Closing Example

Starbucks has come a long way from that little Seattle store. The company makes innovative use of the marketing mix to bring to life its company values, including:

- Building a culture of warmth and belonging, which effectively becomes part of their “product.”
- Providing products at a variety of price points, high and low.
- Aggressively expanding worldwide so that more people have access to their products. This is an example of distribution, or “place”.
- Utilizing public relations and a variety of other promotional tactics to maintain their position as one of the most valued brands in the world.

1-3. Five Eras of Marketing History

LO 1.3

Contrast the focus of marketing activities during the five eras of marketing history.

Opening Example

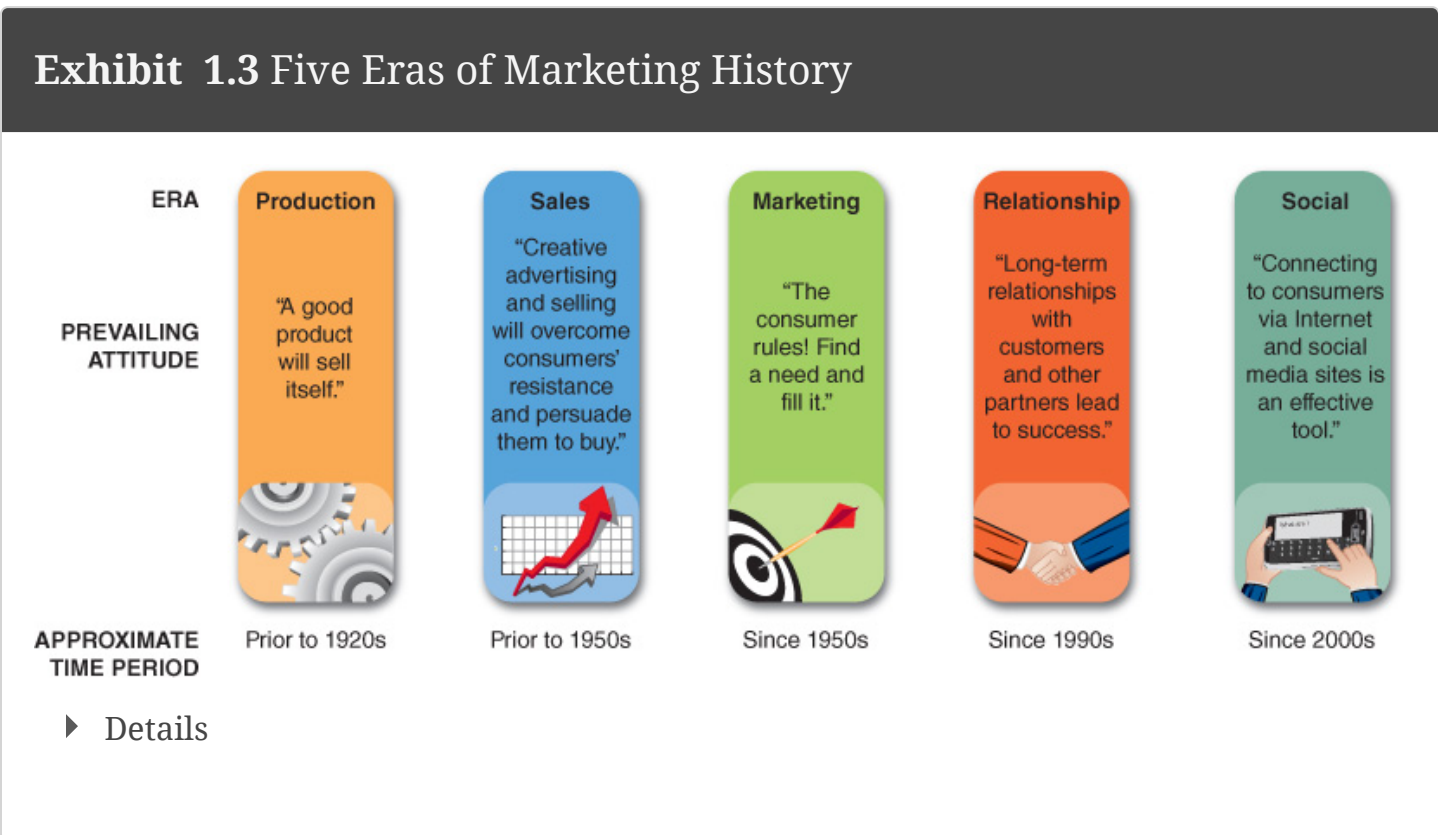
When Sue Kenworth took over her family's long-established bakery chain, Kenworth Bread and Cake (Kenworth B&C), she was open to advice from the previous CEOs—her father and grandfather. But when it came to marketing decisions, she felt like the three of them spoke different languages. Her grandfather kept urging her to hire more salespeople and run more ads. Her father questioned her emphasis on building long-term relationships. Then Sue remembered what her college marketing textbook said: the role of marketing in business has changed over time. By refreshing her memory about the five eras of marketing history, she was able to understand where her father and grandfather were coming from. At a family meeting, she explained why her path was the right one for the company's future. What did she say?

1-3a. Learning It: Five Eras of Marketing History

9

Marketing has been viewed and practiced differently over the decades. [Exhibit 1.3](#) identifies five eras in the history of marketing:

1. the production era,
2. the sales era,
3. the marketing era,
4. the relationship era, and
5. the social era.



The Production Era

When Sue’s great-grandfather founded Kenworth B&C in 1924, he believed that high-quality baked goods would sell themselves. He developed mixing and baking techniques that turned out product faster than anyone else. With little competition and strong demand by customers tired of baking at home, Kenworth was an immediate success. Before 1925, most firms shared this [production orientation](#)- manufacturers stressed production of quality products and then looked for people to purchase them.

The production era reached its peak during the early part of the twentieth century, when production shortages and intense consumer demand ruled the day. Henry Ford’s mass-production line exemplified this orientation. Ford’s famous statement, “They [customers] can have any color they want, as long as it’s black,” reflected the prevalent attitude toward marketing.

The Sales Era

Sue’s grandfather faced new challenges when he joined the firm in the 1940s. Many competitors now baked bread and cakes as fast as Kenworth, so rapid production no longer guaranteed profitability. He hired salesmen to visit stores and restaurants—even to knock on doors in nearby communities. He also put up billboards and ran ads in the local newspapers. Like Sue’s grandfather, many businesspeople from the 1920s into the early 1950s realized that increasingly sophisticated production techniques had led to more output than the market could readily absorb. During this more competitive era, companies adopted a [sales orientation](#), a belief that creative advertising and personal selling will persuade consumers to buy.

10

The Marketing Era

By the time Sue’s father began working for Kenworth in 1955, what was once a [seller’s market](#) for baked goods (more buyers for fewer products) had become a [buyer’s market](#) (more products than people willing to buy them). He had to assess the needs and wants of Kenworth’s customers in order to satisfy them—finding, for example, that restaurant buyers would increase their purchases if offered single-serving rolls, which minimized waste, instead of large loaves.

The marketing concept had emerged. This meant that companies needed a [consumer orientation](#)- where the focus is on satisfying the needs and wants of consumers rather than simply producing and selling products. From now on, marketers would play a lead role in product planning because they had knowledge of consumer needs. Marketing and selling would no longer be regarded as a supplemental activity performed after the production process.

Today’s fully developed [marketing concept](#) is a companywide consumer orientation with the objective of achieving long-term success. All facets—and all levels, from top to bottom—of the organization must contribute first to assessing and then to satisfying customer wants and needs. From marketing manager to accountant to product designer, every employee plays a role in reaching potential customers.

Companies that implement market-driven strategies are better able to understand their customers’ experiences, buying habits, and needs. In talking with many restaurateurs, Sue’s father learned that they worried about diners filling up on rolls and cutting back on profitable meal orders. When Kenworth introduced its line of “Lite Rolls,” which were attractive and tasty but didn’t make people feel full, business boomed.

The Relationship Era

Sue joined the family firm during the 1990s. Unlike her older relatives, she focused her work from the start on establishing and maintaining relationships with both buyers and vendors. For example, she developed a Kenworth newsletter and a “Baking Tips” mailer. She also created a rewards program offering discounts to repeat customers and to the stores that consistently stocked Kenworth goods.

Relationship marketing builds on the marketing era’s customer orientation by developing long-term, value-added relationships over time with customers and suppliers. Like other modern marketers, Sue realized that, although it’s important to attract new customers, it’s even more important to encourage current customers and other partners to keep coming back. For instance, when a popular retail store always carries the Kenworth brand, consumers benefit because they know where to find their favorite Kenworth products; the retailer benefits from ongoing store traffic; and Kenworth benefits from reliable sales.

The Social Era

Building on the relationship era, marketers now routinely use the Internet and social networking sites to connect with consumers. At Sue’s urging, Kenworth developed an interactive website that invites visitors to take a virtual tour of the baking plant, ask questions, and share stories about how Kenworth products enhance their lives.

1-3b. Closing Example

Sue began the family meeting by reminding her father and grandfather about Henry Ford's experience: "Even the most innovative, highest-quality product will fail unless people understand its benefits and believe it will fill their needs!" she said. "I respect all that Kenworth accomplished in the past. But we have more competition than ever. Now, it's our relationships with loyal customers that will encourage them to trust us for quality goods, look to us for new products, and tell others why our brand is best. I'm proud to use this modern marketing philosophy to carry on our company's tradition of value and integrity!"

1-4. From Transaction-Based Marketing to Relationship Marketing

11

LO 1.4

Explain how relationship marketing can move customers up the loyalty ladder.

Opening Example

In the past, the Weather Channel (TWC) simply delivered content whenever a viewer tuned in on TV. There was no effort to reach out to customers, anticipate their needs, or keep them coming back for more and better experiences. But as websites and apps emerged, which could also give people weather information, the cable channel needed new ways to be relevant. TWC began to replace its traditional view of marketing as a simple exchange process, or transaction-based marketing, with a different, longer-term approach that emphasized building relationships with one customer at a time. But how do you build stable relationships based on ever-changing weather forecasts?

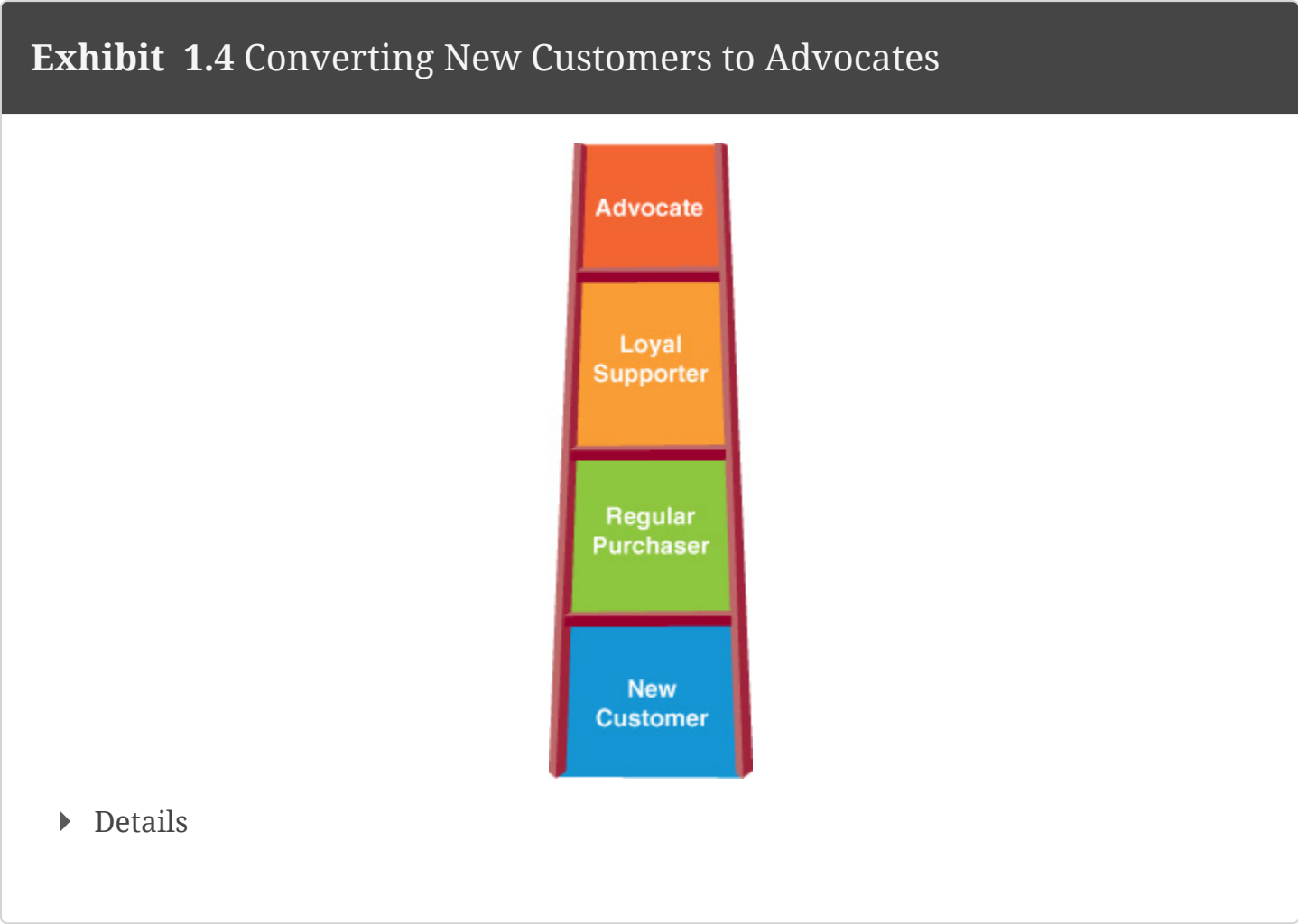
1-4a. Learning It: From Transaction-Based Marketing to Relationship Marketing

Traditional marketing strategies focused on attracting customers and closing deals. Today’s marketers realize that attracting new customers is no longer enough. It’s even more important to establish and maintain satisfying relationships that turn one-time buyers into loyal repeat customers. Over the long term, this relationship may be translated to the lifetime value of a customer—the total revenues a customer brings to an organization, minus the investment the firm has made to attract and keep the customer.

As defined earlier in this chapter, relationship marketing refers to the development, growth, and maintenance of long-term, cost-effective relationships with individual customers, suppliers, employees, and other partners for mutual benefit.

12

Relationship marketing gives a company new opportunities to gain a competitive edge by moving customers up a loyalty ladder—from new customers to regular purchasers, then to loyal supporters of the firm and its goods and services, and finally to advocates who not only buy its products but also recommend them to others (see [Exhibit 1.4](#)).



Relationship building begins early in marketing. It starts with determining what customers need and want, then developing high-quality products to meet those needs. This is how companies can generate new customers in the first place. But relationship building continues with excellent customer service during and after purchase. It also includes programs that encourage repeat purchases and foster customer loyalty.

Relationship marketing can be enhanced by today’s technology, which enables marketers and their customers to continually stay in touch via social media, e-mail, voicemail, and other tools. It’s not a one-way street: consumers may also initiate relationships after accessing positive information about brands and companies. Uses of technology in relationship marketing include:

Mobile marketing- marketing messages sent to wireless devices, such as phones and tablets. An example is e-mail marketing, which can be used to answer frequently asked customer questions or encourage repeat purchase. Another example is apps that customers download to their phones. By providing interactivity, information, and personalization, these apps can encourage customer loyalty.

Social marketing- the use of online social media as a communications channel for marketing messages. Social media platforms include Facebook, Twitter, and Pinterest. Social media platforms allow marketers to educate customers, answer questions, and gather feedback that can be used for product development or customer service. It also provides a platform for brand advocates, loyal and enthusiastic followers of a brand, to publicize their experiences with the brand.

One small business making good use of social marketing is Lolly Wolly Doodle, a children’s clothing company in Lexington, North Carolina. Founder Brandi Temple started making clothes for her young daughters and realized she made more outfits than her two girls could possibly wear; so she sold the extra outfits on eBay. When her husband lost his job, they decided to move their small retail sales operation from eBay to Facebook, where they currently have almost 1.5 million likes. Temple says the company’s followers have provided instant feedback about certain types of clothing and have become unofficial salespeople, posting pictures of their children wearing the company’s attractive outfits. *

13

American Express uses social media extensively to engage with its customers. The company has created a Business Class page on its website which serves as a “modern business education through insights, tips, and inspiration to help your business adapt to changing times.” * Customers can read articles or watch “Office Hours” videos featuring business leaders from a variety of industries. The American Express Business Facebook and Instagram pages feature some of the content as well.



► Details

Source: American Express

American Express uses social media to engage and interact with consumers.

When companies can convert indifferent customers into loyal ones, they generate repeat sales. The cost of maintaining existing customers is far below the cost of finding new ones, making these loyal customers extra valuable and the investment in relationship marketing worth it. Some of the best repeat customers are those who are also willing to spread the word about the product—create a buzz—among other potential purchasers, a concept known as “buzz marketing.”

1-4b. Closing Example

As a result of its relationship marketing efforts, the Weather Channel transformed its business. The brand created a mobile app that hosts interactive conversations among users, a Twitter partnership offering real-time tweets and other customer-created content on TV, a website highlighting conditions and forecasts for 100,000 locations worldwide, a radio network with 700 affiliates, and more. It was once a cable channel that viewers watched mostly during weather disasters, but now it's a company that forecasts consumer behavior by analyzing when, where, and how often consumers check the weather. It provides people with information tailored to where they live, what they want to know, and which medium they prefer (TV, radio, mobile). Its new name, The Weather Company, reflects this change and its commitment to serve customers interactively as a lifestyle partner and a trusted friend. 🌩️

1-5. Categories of Marketing

14

LO 1.5

Differentiate the six categories of marketing.

Opening Example

President Barack Obama's 2012 reelection campaign broke ground in its use of promotion vehicles and relationship marketing. Instead of the TV commercials heavily relied on by past presidential candidates, Obama's team built multiple websites that gathered extensive personal data about people who contacted the campaign. This data enabled strategists to reach out to individuals one at a time, recruiting thousands of them as social media advocates who spread online buzz about Obama among their own friends and networks. *

Obviously, the goal of the Obama campaign wasn't to sell goods or services; it was to build support for a person. How does this approach relate to the type of marketing you know best—marketing of products?

1-5a. Learning It: Categories of Marketing

Product marketing involves efforts designed to communicate the benefits of a good or service. As you’ve learned, for-profit organizations have long used the four marketing mix variables—product, price, distribution, and promotion—to persuade target consumers to buy and to build long-term relationships.

While product marketing is the most well-known and widely used form of marketing, there are actually six categories of marketing (see [Exhibit 1.5](#)). In many cases, broader appeals focus on causes, events, individuals, organizations, and places.

Exhibit 1.5 Six Categories of Marketing		
Type	Objectives	Examples
Product marketing	Marketing efforts designed to communicate the benefits of a good or service and persuade target consumers to buy	Subaru: “Love. It’s what makes a Subaru a Subaru.” Geico: “15 minutes will save you 15% on car insurance.” Nike: “Just do it.”
<u>Person Marketing</u>	Marketing efforts designed to cultivate the attention and preference of a target market toward a person	Russell Wilson, Seattle Seahawks quarterback Celebrity Blake Shelton, country singer
<u>Place Marketing</u>	Marketing efforts designed to attract visitors to a particular area; improve consumer images of a city, state, or nation; and/or attract new business	California: “Find Yourself Here.” Tennessee: “We’re Playing Your Song.” West Virginia: “Wild and Wonderful.”
<u>Cause Marketing</u>	Identification and marketing of a social issue, cause, or idea to selected target markets	“Click it or Ticket.” “Refill, not landfill.”
<u>Event Marketing</u>	Marketing of sporting, cultural, and charitable activities to selected target markets	Paris 2024 Summer Olympics American Diabetes Association’s Tour de Cure
<u>Organization Marketing</u>	Marketing efforts of mutual-benefit organizations, service organizations, and government organizations that seek to influence others to accept their goals, receive their services, or contribute to them in some way	American Red Cross: “Together, we can save a life.” March of Dimes: “Working together for stronger, healthier babies.” St. Jude Children’s Research Hospital: “Finding Cures. Saving Children.”

15

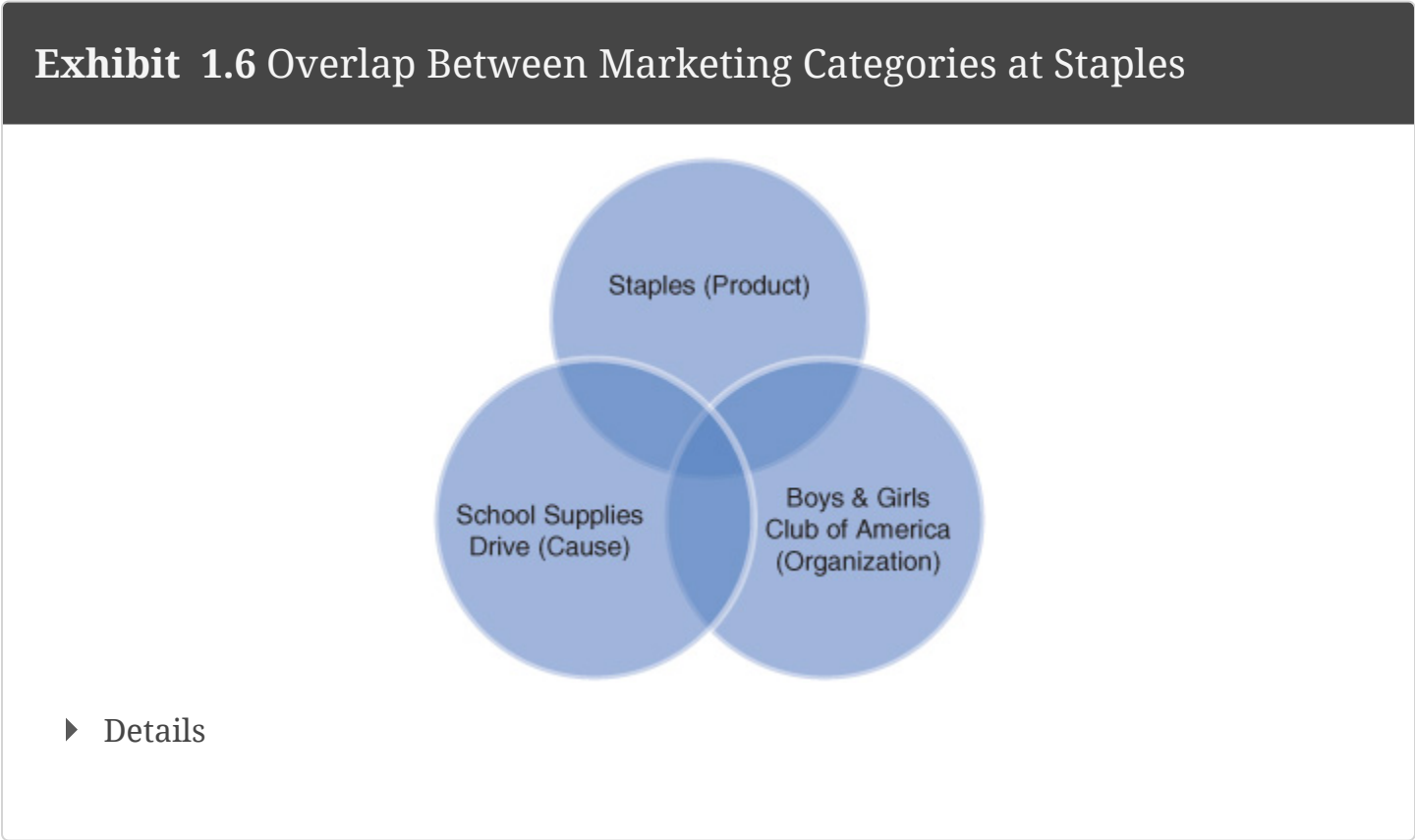
Overlap Between Marketing Categories

The six categories of marketing can often overlap.

Example 1: Avon cosmetics frequently promotes both a product and the cause of raising breast cancer awareness.

Example 2: Oprah Winfrey uses person marketing to promote her products, such as TV shows, magazines, and books.

Example 3: Office supply giant Staples (selling a product) recently partnered with the Boys & Girls Clubs of America (an organization) to sponsor its annual school supplies drive and donated supplies to more than 5,000 communities nationwide (a cause). [Exhibit 1.6](#) illustrates the overlap between these categories of marketing.



1-5b. Closing Example

Barack Obama's campaign didn't just win the 2012 election; it changed the marketing of political candidates forever. Instead of passively delivering messages to television audiences, future presidential candidates would seek ways of building relationships with volunteers, donors, and, ultimately, voters. By 2016, both Hillary Clinton and Donald Trump relied heavily on social media platforms like Facebook and Twitter to identify, expand, and create loyalty among their target audiences—applying the modern practices of product marketing to the concept of person marketing in a way never seen before.

1-6. Eight Functions of Marketing Physical Goods

LO 1.6

Identify the eight functions of marketing physical goods.

Opening Example

Sam's Sub Shop opened near a big university campus with great fanfair. No one in the campus community could miss the billboards and posters touting "Sam's Own Heavenly Honey-Roasted Turkey." For the first week after its grand opening, the shop did a brisk lunchtime business.

But in week two, Sam's ran out of its signature turkey. By the time a backup supply was shipped, the meat had spoiled in an overheated warehouse. Busy students and faculty who came for the product were annoyed that they'd wasted their time. Word of mouth was so negative that the shop was forced to close after just two months.

What did Sam's do wrong? And what can these mistakes teach us about the functions of marketing?

1-6a. Learning It: Eight Functions of Marketing Physical Goods

16

As a consumer, you are influenced by advertising, personal selling, and other types of promotion. You may also appreciate a seller’s willingness to deliver your product. But these represent only two of the eight functions marketers perform in their efforts to build a relationship with you. Understanding these functions will make you a savvy consumer as well as an effective marketer.

On average, half of the costs involved in a tangible product—such as a Sam’s Sub Shop sandwich, a pair of Gap jeans, or noise-canceling headphones—can be traced directly to marketing. Firms must spend money to create time, place, and ownership utilities. These expenditures are not associated with any of the actual production functions necessary for creating form utility; instead, they go toward the performance of eight universal marketing functions, as illustrated in [Exhibit 1.7](#).

Exhibit 1.7 The Eight Universal Functions of Marketing			
Function	What Is It?	Why Is It Important?	Example
Buying	Ensuring that product offerings are available in sufficient quantities to meet customer demands.	Marketers must be able to satisfy consumers’ wants and needs promptly and ahead of consumption.	A bakery must have enough flour on hand to give customers a reliable supply of bread.
Selling	Using advertising, personal selling, and sales promotion to match products to customer needs.	Marketers must communicate with consumers about how their products create value.	A consumer planning a day at the beach wants to know what sunscreens are most effective.
Transporting	Moving products from their point of production to locations convenient for purchasers.	Marketers create place utility by making goods and services available where people want to buy them.	One of Amazon’s biggest competitive strengths is its ability to transport virtually any goods anywhere.
Storing	Warehousing products until needed for sale.	Marketers must have a place to keep unsold products organized, safe, and ready to be transported to store as needed.	Walmart has limited shelf space and can’t stock everything they carry all at once.
Standardizing and Grading	Ensuring that product offerings meet quality and quantity controls of size, weight, and other variables.	Marketers must meet consumers’ expectations of product size, weight, and so on.	A tire dealer must offer tires in standard sizes that consumers know will fit their cars.
Financing	Providing credit for channel members (wholesalers and retailers) and consumers.	Wholesalers and retailers often need access to funds to finance product inventory prior to sale. Consumers often need the option of using credit cards to buy.	At holiday time when they make many purchases, consumers prefer using credit cards instead of carrying large amounts of cash.
Risk Taking	Dealing with uncertainty about future customer purchases.	When manufacturers create products based on research, they believe consumers need those products. Companies accommodate these uncertainties about future demand when they bring goods to market.	Toy makers like Mattel offer innovative toys each year based on their forecast of likely trends in children’s play.
Securing Marketing Information	Collecting information about consumers, competitors, and channel members for use in decision-making.	Analysis of marketing information helps marketers understand why consumers purchase some goods and not others. This also helps determine what consumers want and need, and how to satisfy those wants and needs.	Many hotels ask customers to complete a satisfaction survey after their stays so that the hotel will know if their rooms and service meet the needs of travelers.

1-6b. Closing Example

You can think about marketing as a chain of connections between a firm and its customers. Each of the eight links in the chain represents a unique function. Sam's Sub Shop may have sold great turkey, but that wasn't enough to keep the store in business when it failed at buying (having enough meat on hand), transporting (shipping the perishable product quickly), and storing (using a temperature-controlled warehouse). Marketers have the best opportunity to build and maintain lasting relationships when each link in the chain is strong and fits well with the others.

1-7. Analyzing Marketing Strategy

17

LO 1.7

Given a description of a company's marketing mix, classify the elements of the marketing mix and the category of marketing.

Opening Example

At the beginning of this chapter you read about Vineyard Vines, a unique—but upscale—brand of casual clothing founded by two 20-something men who initially sold ties out of their car. Today, the firm offers a full line of high-quality clothing for men, women, and children in over 100 nautical-themed stores nationwide, in major retail chains, via catalog and online. They also offer their products through licensing partnerships with Major League Baseball, the National Hockey League, and the National Football League.

While Vineyard Vines does little paid advertising, it generates plenty of buzz via social media. The company also encourages positive word-of-mouth by distributing free accessories and clothing to select customer groups, sending representatives to college campuses, and training salespeople to connect with buyers one-on-one.

Let's say you were Chief Marketing Officer for Vineyard Vines. You must summarize the key elements of your marketing mix to the board of directors. What would you say?

18



► Details

Source: www.jarrettbay.com

Vineyard Vines' marketing mix offers unique, premium-priced products, distributed through multiple retail channels, and a promotional strategy that relies on social media and word-of-mouth.

1-7a. Learning It: Analyzing Marketing Strategy

As discussed previously, every successful customer-driven organization begins by defining its target market. Vineyard Vines primarily targets young people, especially college students, who value a fun, sporty lifestyle and will stay loyal to the brand for decades.

As a product marketer, Vineyard Vines needs to communicate the benefits of its goods to its target market, both to persuade people to buy, and to build long-term relationships. Here's how the company is using each key variable of the marketing mix to accomplish these goals:

Product Strategy

Vineyard Vines expanded its product line from menswear to clothing for women and children of all ages. The firm has also trademarked its brand name and made important decisions about design and positioning: every item is embellished with its distinctive pink whale logo, and it is positioned as a fun, outdoorsy—yet premium—lifestyle brand that competes with labels like Polo and Ralph Lauren.

Pricing Strategy

Vineyard Vines is a premium-priced brand when compared to other casual clothing brands. It sometimes offers temporary, seasonal promotions to generate additional demand without undermining its premium image.

Distribution Strategy

The brand is distributed through company-owned stores, other upscale retailers, and online. Its distribution network is widened by its licensing partners and on the college campuses that host its company representatives.

Promotion Strategy

Vineyard Vines communicates its message directly through social media and the personal selling efforts of its salespeople; and indirectly through promotions like offering free clothes to students. All of its promotional communications are integrated in style and theme—*Living the Dream*—and utilize recognizable visual elements.

1-8. Learn It Today . . . Use It Tomorrow

Despite its humble beginnings from the trunk of Shep and Ian Murray's car, Vineyard Vines continues to grow its business and meet the needs of its customers. The company recently announced a new concept store at Pebble Beach Golf Links featuring a partnership with iconic sportscaster, Jim Nantz. The Pebble Beach location provides place utility to West coast fans of the brand. Additionally, Vineyard Vines has invested in data analytics to improve its communication, understanding, and relationships with its customers. The dive into analytics has allowed Vineyard Vines to provide authentic and meaningful communication to consumers through personalized e-mails and social media channels. The company is privately held by the Murray brothers and Shep and Ian oversee every aspect of the business. Their careful consideration of everything from neck tie designs to the music playing in retail stores makes Vineyard Vines a household name from coast to coast.

Chapter Summary

LO 1.1 Summarize how marketing creates value through the four types of utility.

The goal of any marketing effort is to boost utility: the power of a good or service to satisfy the needs and wants of consumers. The four types of utility include form, time, place, and ownership.

LO 1.2 Describe the four variables of the marketing mix.

Marketing strategy begins by identifying a target audience. Then marketers combine the marketing mix variables of product, price, distribution, and promotion to satisfy the needs of the target audience.

LO 1.3 Contrast the focus of marketing activities during the five eras of marketing history.

Marketing has been viewed and practiced differently over the decades. Its focus today is on building relationships.

LO 1.4 Explain how relationship marketing can move customers up the loyalty ladder.

Relationship marketing gives a company new opportunities to steadily increase customers’ loyalty. When they start as new customers, the marketer’s goal is to move them up to regular purchasers, loyal supporters, and ultimately advocates.

LO 1.5 Differentiate the six categories of marketing.

As marketing has evolved into an organization-wide activity, its application has broadened to include product, person, place, cause, event, and organization marketing.

LO 1.6 Identify the eight functions of marketing physical goods.

Marketers must utilize the full set of marketing functions to build and maintain lasting relationships: buying, selling, transporting, storing, standardizing and grading, financing, risk taking, and securing marketing information.

LO 1.7 Given a description of a company’s marketing mix, classify the elements of the marketing mix and the category of marketing.

The elements of the marketing mix have distinct characteristics and uses. Marketers must decide how best to apply them to each of the six categories of marketing.

Key Terms

utility

marketing

target market

marketing mix

product

price strategy

distribution

promotion

production orientation

sales orientation

seller’s market

buyer’s market

consumer orientation

marketing concept

transaction-based marketing

relationship marketing

mobile marketing

social marketing

product marketing

person marketing

place marketing

cause marketing

event marketing

organization marketing

Chapter 2. Strategic Planning in Contemporary Marketing

Introduction

21



Sorbis/Shutterstock.com

Learning Objectives

- 2.1 Contrast how marketing plans differ at various levels in an organization.
- 2.2 Summarize the six components of a marketing plan.
- 2.3 Summarize the competitive forces of Porter’s five forces model.
- 2.4 Differentiate the elements of a SWOT analysis.
- 2.5 Explain how the BCG matrix is used for marketing planning.
- 2.6 Given an example of a strategic analysis, categorize the findings utilizing the SWOT analysis and BCG matrix.

Learn It Today . . . Use It Tomorrow

Since its beginning in 1995, Under Armour (UA), has grown rapidly and is now poised to take on the company’s #1 competitor—Nike. 🌟 What has led to Under Armour’s success and how can the firm chip away at Nike’s market leading position? It’s a combination of factors, including UA’s ability to find market opportunities, create compelling marketing mixes, and nurture relationships with key constituents—including customers, suppliers, and strategic retail partners. To pull this off, UA’s management team across all levels of the firm engages in planning to develop its strategy and identify tactics to achieve the company’s business goals. In this chapter, you’ll learn about planning methods that enable firms like UA to develop a game plan to win in highly competitive markets.

2-1. Marketing Planning: The Basis for Strategy and Tactics

LO 2.1

Contrast how marketing plans differ at various levels in an organization.

Opening Example

Uber has taken the world by storm by disrupting the transportation and logistics industries. Now it is ready to tackle big issues such as city cleanliness, infrastructure, and urban crowding by partnering with urban planners and city leaders. To accomplish its goals, Uber is investing heavily in technology—including partnerships with engineering centers and automobile manufacturers Volvo and Daimler to offer self-driving cars via its network. Additionally, the company has diversified with Uber Eats, Uber Freight, and Uber Money. From its humble beginnings in San Francisco as a luxury “black-car” service, Uber now operates in over 800 cities across 80 countries.

But how do big decisions get made at Uber? Who decides what technology investments to make or what cities are appropriate for expansion? And once those decisions are made, who oversees the daily execution of those strategies?

2-1a. Learning It: Marketing Planning: The Basis for Strategy and Tactics

Planning is the overall process of anticipating conditions and determining the best way to achieve organizational objectives. Marketing planning is devoted specifically to achieving marketing objectives. Product development, pricing decisions, selection of appropriate distribution channels, and decisions relating to promotional campaigns all depend on ideas formulated during marketing planning.

Planning is often classified on the basis of its scope or breadth. Strategic planning is the process of determining an organization’s long-term primary objectives and adopting courses of action that will achieve these objectives. This process also includes the allocation of necessary resources. Strategic planning is typically the emphasis of top managers, such as the CEO and CMO.

Strategic planning lays the foundation for tactical planning- which defines how activities specified in the strategic plan will be implemented. Unlike strategic plans, tactical plans typically address shorter-term actions that a firm must complete to implement its larger strategies. Sometimes tactical planning requires swift decision-making and actions, and is typically the emphasis of middle-managers, such as general managers and department directors.

In turn, tactical planning is the basis for operational planning- where managers develop specific programs to meet goals in their area of responsibility. [Exhibit 2.1](#) summarizes the types of planning undertaken at various levels of the organization.

Exhibit 2.1 Planning at Different Managerial Levels		
Management Level	Type of Planning Emphasized at This Level	Examples
Top Management Board of directors Chief executive officer Chief operating officer Chief financial officer Chief marketing officer	Strategic planning	Organization-wide objectives Fundamental strategies Long-term plans Total budget
Middle Management General sales manager Team leader Director of marketing research	Tactical planning	Quarterly and semi-annual plans Business unit budgets Divisional policies and procedures
Supervisory Management Regional sales manager Supervisor—telemarketing office	Operational planning	Daily and weekly plans Unit budgets Departmental rules and procedures

Here’s how the planning process at different levels might look at a company like Uber:

Strategic planning: The executive team, including the CEO, COO, and CMO, make long-term decisions about expansion into new markets around the globe. Let’s say Indonesia was one of those markets targeted for expansion.

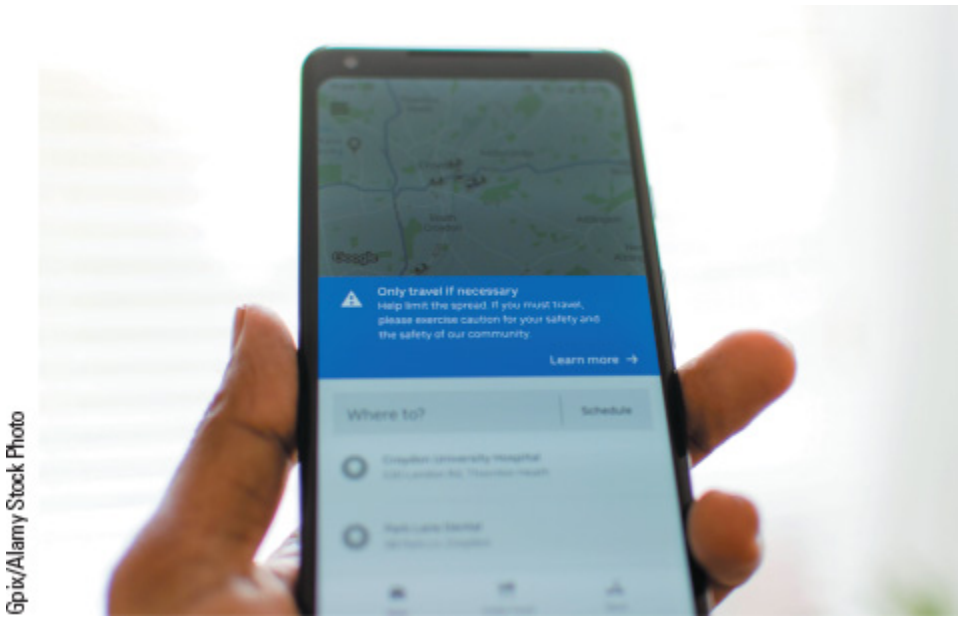
Tactical planning: Based on the strategic decision to enter Indonesia, the middle-management team in charge of Uber in Asia would set goals and milestones for having an office up-and-running in Indonesia. Tactical planning might include defining the number of drivers Uber would like to have and the total number of trips Uber would like to facilitate in the first year of operation in this new market.

Operational planning: Based on the tactical plan, the supervisors of the new office in Indonesia would begin advertising for drivers, advertising for riders, and setting goals and procedures for staff at the local office.

2-1b. Closing Example

In late 2019, an outbreak of a coronavirus occurred in Wuhan, China. The virus quickly spread, impacting cities and nations across the globe. As cities shut down and required mandatory quarantines, Uber experienced a significant decline in rides—down nearly 80 percent from the previous year. 🌐 The impact of COVID-19 forced Uber CEO, Dara Khosrowshahi, and his leadership team to make important strategic, tactical, and operational decisions.

While the number of Uber rides was falling, deliveries using Uber Eats were steadily increasing. Uber Eats reported a 53 percent increase in revenue from April to June 2020. 🌐 Uber had been slowly growing the Uber Eats business over several years, but the impact of COVID-19 prompted a strategic move to purchase Postmates delivery service—expanding the reach of Uber Eats beyond food delivery. Tactically, Uber introduced Uber Direct and Uber Connect. Uber Direct allowed consumers to purchase retail goods and have them delivered without interpersonal contact. With Uber Connect, family and friends can stay in touch by sending packages with same-day delivery in select cities. These two initiatives utilized Uber’s current network of driver-partners. Operationally, Uber provided personal protective equipment (PPE) such as masks, disinfectants, and gloves to drivers so they could continue to safely perform their jobs. Finally, safety features were added to the Uber mobile app and drivers could cancel if riders were not wearing masks. Uber’s ability to quickly pivot and utilize current resources to achieve organizational objectives is an excellent example of planning in action.



Gpix/Alamy Stock Photo

Adding safety features to Uber’s mobile app is an example of operational planning.

2-2. Marketing Plan Components

LO 2.2

Summarize the six components of a marketing plan.

Opening Example

Large and small organizations of all types make a myriad of decisions including the allocation of resources, pursuit of new markets, introduction of new products, and the deletion of existing products. What happens behind the scenes of an organization that determines these actions? The answer most likely lies in the firm's ability to develop and implement a marketing plan.

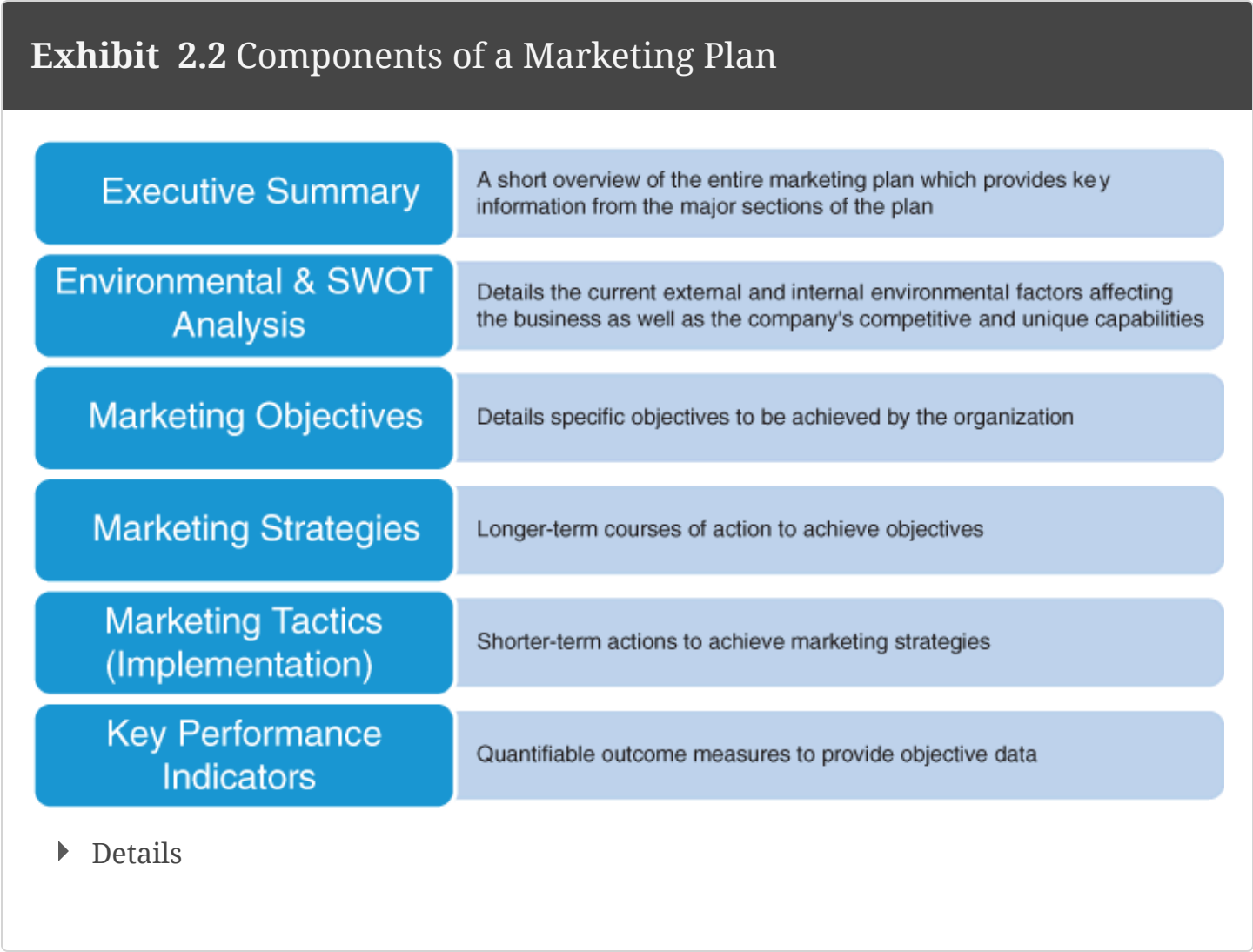
Consider Caterpillar Inc., a manufacturer of heavy equipment machinery utilized in road construction, mining, agriculture, oil and gas, and several other industries. * In 2008, Caterpillar announced several plans signaling changes in its strategic direction within the U.S. truck market, including a joint venture with Navistar and the decision to stop supplying engines to U.S. truck manufacturers. * Did the company make the right decision to pursue these strategies, and what information would help the company's managers to determine whether any adjustment in the strategy is needed?

2-2a. Learning It: Marketing Plan Components

25

Managers involved in marketing typically create a [marketing plan](#) as part of their strategic planning process. A written plan is important as it enables all key employees to understand the strategic goals of the organization, their role in contributing to the organization’s success, and awareness of how performance will be evaluated.

A marketing plan typically includes several sections or components (see [Exhibit 2.2](#)).



The marketing plan begins with an Executive Summary, which is a short overview of the entire marketing plan and provides key information from the major sections of the plan.

The Environmental & SWOT (Strengths, Weaknesses, Opportunities and Threats) Analysis section details the current external and internal environmental factors affecting the business as well as the company’s competitive and unique capabilities. A full discussion of SWOT analysis is presented later in this chapter. A full discussion of factors in the marketing environment is presented in [Chapter 3](#).

The Marketing Objectives section is where the plan really takes shape. This section should detail specific objectives to be achieved, which are the key drivers for what goes in the rest of the plan.

For each marketing objective, the plan will identify the marketing strategies, tactics to be implemented, and key performance benchmarks to evaluate whether the firm’s activities are accomplishing the marketing objective. Soundly conceived objectives should state specific intentions.

For example, imagine that the general manager of the Mon Ami Gabi restaurant located in Las Vegas’ Paris Hotel & Casino has completed a SWOT analysis and sees potential for strong growth in the next year.

26

As a result, one of the marketing objectives is to increase revenue by 50%. To accomplish that objective, the manager identified three strategies. For each strategy, he defined specific tactics and a measurement for the success of each one.

[Exhibit 2.3](#) summarizes how one marketing objective translates into a number of strategies, tactics, and measurements that go in the marketing plan. This process would be repeated for any additional major marketing objectives.

Exhibit 2.3 Mon Ami Gabi Marketing Plan Elements			
Marketing Objective	Marketing Strategies	Marketing Tactics	Key Performance Indicators
Increase revenue by 50% by next year	Target local residents in addition to travelers.	- Send e-mail marketing to travelers who have a reservation to stay at the Paris Hotel & Casino - Promote the restaurant to local Las Vegas residents using radio & TV advertising	- Number of lunch & dinner reservations received compared to previous year - Number of reservations redeemed or number of “no shows” compared to previous year
	Implement persuasive selling techniques to increase average sales per diner or table.	- Offer drink, appetizer, and dessert specials - Enhance server ability to “up-sell” customers on alcoholic beverages	- Number of drink, appetizer, and dessert specials sold per shift - Average ticket sale compared to previous year - Sales of “premium” brands versus “house” brands of alcohol
	Manage all aspects of the dining experience to improve customer satisfaction and increase positive word-of-mouth	- Decrease wait time to be seated - Improve time between ordering and food delivery - Ensure high quality food taste and appearance	- Average wait time for tables - Average ticket times between entering into point-of-service system and food delivery - Number of returns for incorrect orders and/or food quality

The marketing plan should be flexible and allow management to re-evaluate and redirect its efforts in response to changing environmental factors or inability to achieve the objectives. By tracking the key performance indicators and comparing those outcomes to the stated objectives, managers can identify areas where they should direct their attention or shift resources in order to improve performance.

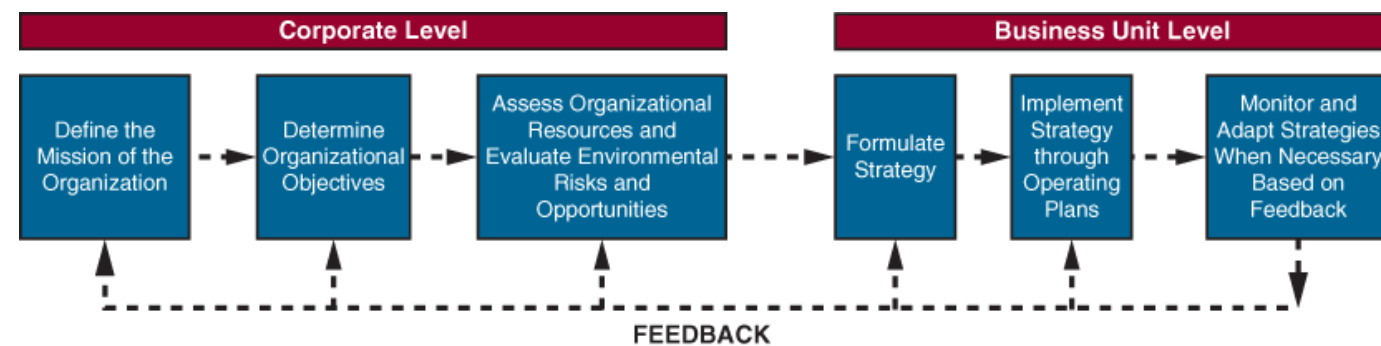
2-2b. The Marketing Planning Process

The process for developing a marketing plan largely mirrors the sections of a marketing plan. In a larger company, the marketing planning process consists of six steps beginning at the corporate level with the definition of a firm's [mission](#), determination of objectives, assessment of resources, and evaluation of environmental risks and opportunities.

Guided by this information, marketers within each business unit then formulate a marketing strategy, implement the strategy through operating plans, and gather feedback to monitor and adapt strategies when necessary. [Exhibit 2.4](#) shows the basic steps in the process.

27

Exhibit 2.4 The Marketing Planning Process



► Details

2-2c. Closing Example

The engine and truck team at Caterpillar likely developed a marketing plan to identify specific strategies and tactics to achieve objectives. As part of the planning process, a SWOT analysis would have been performed, and according to industry sources, Caterpillar’s 40-year history of supplying on-highway diesel engines was one of its strengths and it had earned the respect of truck owners and drivers. Caterpillar’s internal research indicated that “75 percent of the company’s current customers use on-highway trucks in their business,” which indicated an opportunity for the company to grow revenues by delivering a truck product to existing customers. * A likely external environmental factor impacting Caterpillar’s strategy relates to the 2010 emission standards for diesel trucks * -an opportunity for firms who were on target to be in compliance with the standards and a threat for those who were unable to reach the standards. In addition, the U.S. truck market was experiencing heavy consolidation and one of Caterpillar’s largest customers, Paccar, was building its own plant to produce engines in Mississippi. This threatened Caterpillar’s business. *

It seemed that Caterpillar’s decision to join forces with Navistar was a good one that could lead to opportunities for the company. However, within five years of the launch of Caterpillar’s CT660 vocational truck, the company decided to discontinue the truck line and exit the business. * What could have happened that led to a failed investment in the truck industry for Caterpillar?

Perhaps it was the decision to join forces with Navistar. While Navistar has been a long-term partner to Caterpillar, it does not have the same reputation for quality products as Caterpillar and had to set aside \$164 million in warranty reserves to cover repair costs associated with product claims on engines built in 2010 and 2011. * In addition, Navistar struggled to gain market share in the competitive truck market likely due to its failure to achieve compliance with emission standards through a redesigned engine. *

The lesson for Caterpillar, Navistar, and other companies is that while a SWOT analysis may highlight strengths and opportunities to leverage a firm’s capabilities, the specific strategies and tactics deployed by a firm are critically important to the success of the company.

2-3. Industry Structure and Competition

28

LO 2.3

Summarize the competitive Forces of Porter's Five Forces model.

Opening Example

The energy drink market was created in 1987 with the launch of Red Bull in Austria, and experienced major growth when it hit the United States 10 years later. Rockstar debuted a competitive 16-ounce can and lower-priced product than Red Bull in 2001, and Monster Energy hit the shelves in 2002. Today the energy drink market is expected to produce over \$8 billion in sales by appealing to a target group of “older millennials.” * Does the energy drink market have room for new entrants? What factors would be important to consider before launching a product into this industry?

2-3a. Learning It: Industry Structure and Competition

As part of the strategic planning process, firms should seek to understand the competitive structure of the industry. A number of years ago, renowned business strategist Michael E. Porter identified five competitive forces that influence planning strategies in a model called [Porter's Five Forces](#). Porter notes that these different forces exert strong influences on an industry's profitability potential over time. [Exhibit 2.5](#) summarizes the five competitive forces.

Exhibit 2.5 Competitive Forces and Profitability		
Competitive Force	Force Description	Impact on Industry Profits
Threat of new competitors	The degree to which new competitors may easily enter the industry and disrupt established firms.	If the threat is high, established firms may lower prices to fend off competition or make investments to discourage competition. This reduces industry profitability.
Supplier power	The amount of bargaining power a supplier exerts on its customers and other channel members.	If the industry structure contains suppliers with high levels of power, industry profitability will be reduced since suppliers may charge higher prices or transfer costs to other channel partners.
Buyer power	The amount of bargaining power a customer (either consumer or business-to-business buyer) exerts on its suppliers and other channel members.	If the industry contains buyers who wield power, industry profitability will suffer since buyers may demand more services, lower prices, or higher levels of quality.
Threat of substitutes	A substitute threat occurs when a product or service can be replaced with goods and services from a competing firm or industry.	If the threat of substitutes is high, industry profitability will be reduced due to increased competition.
Competitive rivalry	The intensity of competition among industry participants, usually a direct result of the four previous forces.	If competitive rivalry is high, profitability will be reduced.

The *threat of new competitors* is based on the level of difficulty for entering a market or industry. For example, it's considerably more expensive to begin building automobiles like Tesla than to start a house cleaning service. As a result, car companies face a lower threat of new competitors entering the market, while house cleaning services face a constant threat. That threat might cause those services to lower their prices to remain competitive, making it hard to be profitable.

The *power of suppliers* is another threat impacting industries, as those with more powerful suppliers can charge higher prices or pass along price increases to other members in the supply chain. A chemical manufacturer selling specialized herbicides to agricultural firms like DuPont might be able to negotiate more favorable pricing because DuPont does not have an alternate supplier for this chemical. Similarly, Procter & Gamble (P&G) may possess a high degree of power when negotiating with retailers who depend on selling popular P&G brands such as Tide, Pampers, and Bounty paper towels in their stores.

Powerful customers are another threat because they may possess greater negotiating leverage to extract price concessions or other favorable terms. As the largest retailer in the world, Walmart has quite a reputation of squeezing its supplier partners to reduce prices in an effort to provide Walmart customers with everyday low prices. This puts pressure on profit margins for these suppliers, and even Walmart knows it. The company recently suggested its suppliers reduce their in-store and online marketing promotions as a way to reduce costs. 🌀

29 The *threat of substitutes* also is a competitive force impacting industries. If customers have the opportunity to replace a company's products with goods or services from a competing firm, the company's marketers may have to find a new market, change prices, or compete in other ways to maintain an advantage. McDonald's made what some considered a bold move when the firm announced the launch of its "McCafé"—offering upgraded coffee drinks such as lattes, cappuccinos, and mochas—in direct competition with Starbucks and Dunkin'. McDonald's recently announced an even bolder move: entering the retail grocery market by testing three new products—packages of McCafé whole beans, ground coffee, and "single-cups"—in supermarkets. 🌀

30 All of these moves present a competitive threat to Starbucks because they offer a substitute for products customers might currently be purchasing from Starbucks.



► Details

Bloomberg/Getty Images

When McDonald's started offering high-end coffee drinks, they entered direct competition with Starbucks and Dunkin'.

The four previous forces can highly influence *rivalry among competitors*, especially if forces within that industry favor new entrants and substitutes, or provide bargaining power to suppliers and/or buyers. Industry dynamics and the economic environment can influence rivalry as well. Consider the nature of competitive rivalry in these markets:

Soda: Coca-Cola, Pepsi, and 7-Up

Car Rental: Avis, Enterprise Rent-A-Car and Hertz

Auto: Ford, GM, Toyota, and Honda.

Technology: Apple, Google, Amazon, and Microsoft

Competition between these firms and against others in their industry may lead to price discounting, aggressive product development cycles, expensive advertising campaigns, or other ways to differentiate their products. The higher the rivalry in an industry, usually the harder it is to maintain profits over time.