An exciting, dynamic discipline, marketing affects our daily lives in many ways. We are all consumers, and many people are part of the marketing process—as salespeople, advertising executives, retailers, product managers, and so forth. This course introduces you to the study of marketing, beginning in this chapter with a description of marketing, an overview of marketing management, and an explanation of the environmental factors that affect modern marketing. The chapter also presents a preview of the topics covered in the remaining chapters.

**Learning Objectives**

By the end of this chapter, you should be able to:

- Define *marketing*.
- Specify the three basic propositions of the marketing concept.
- Name and describe the four components of the marketing mix.
- List the five major environmental forces that affect marketing.

**What Is Marketing?**

Marketing has been viewed traditionally as a business activity. Business organizations exist to satisfy human needs, especially material needs. Consequently, one way to define marketing is from the business perspective. For instance, marketing has been defined as the “delivery of a higher standard of living.”

Other definitions refer to marketing as an exchange process. This process involves at least two parties: buyer and seller. Each party gives up something
of value and receives something of value. Noted marketing scholar Philip Kotler defines marketing as “a societal process by which individuals and groups obtain what they need and want through creating, offering, and freely exchanging products and services of value with others.”

Because marketing activities bring about exchanges, marketing is an essential function in an economic system. In a free-enterprise economy, resources are allocated by the interaction of supply and demand in the marketplace. Marketing activities and institutions provide the framework and mechanisms for this interaction and the exchange taking place.

Although the business aspects of marketing are important, business-oriented definitions of marketing have been challenged. Critics observe that marketing involves a wide range of activities and organizations and should be viewed from a broader perspective. These critics point out that marketing takes place in not-for-profit organizations, such as hospitals, universities, and social and government agencies. New applications of marketing are further evidence of its growing importance in our society. Any definition must recognize that marketing is a fundamental human activity and that marketing decisions affect everyone’s welfare. The American Marketing Association (AMA) provides a definition of marketing in its broader context:

Marketing is 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 goals.

By including exchange as a part of the definition, the AMA has expanded the marketing process to include all types of organizations. This broadened or generic view of marketing recognizes the importance and application of marketing to not-for-profit organizations and situations. As in for-profit businesses, a carefully planned and coordinated marketing program can help a not-for-profit organization reach its goals, whether they are to attract more members, to increase donations, or to provide better client services.

**Development of Modern Marketing**

Modern marketing traces its origin to the primitive forms of trade. As people began to adopt the techniques of work specialization, a need for individuals and organizations to facilitate the process of exchange emerged. Until about 1900, however, marketing was little more than physical distribution. We can trace the development of modern marketing through three stages—the production era, the sales era, and the era of the marketing concept. As shown in Exhibit 1–1, these changes took place as markets evolved from sellers’ markets to buyers’ markets.

**Production Era**

In the early U.S. economy, most firms concentrated their talents and energies on producing as many goods as possible, both quickly and efficiently. Products were often in limited supply and were sold as readily as they were
available. Manufacturers, faced with brisk demand, had little need to worry about selling and generally relegated that job to a position of lesser status within the firm.

The Industrial Revolution was the major impetus for changes in marketing and commerce. The use of machinery and steam power to replace manual labor and the development of interchangeable parts by Eli Whitney, the “father of mass production,” were momentous economic advances. Because products could be produced in large quantities, a need for large-scale distribution arose. Mail-order houses, department stores, and other mass-distribution organizations developed during the early 1900s to meet this need.

Marketing was still considered less important than production during this era, however. Henry Ford’s widely quoted remark about the needs of automobile buyers, “They can have any color they want as long as it’s black,” reflects the thinking of most business executives of the time. The emphasis was on producing products, not satisfying customers’ needs.

Sales Era
Ford’s approach worked for a while, but the U.S. market was changing. After World War I, many manufacturers found their merchandise piling up in warehouses and on store shelves; no longer did everything they produced sell
automatically. Their problems became particularly severe during the Great Depression in the 1930s when even those consumers who could afford to buy did not. Most manufacturers realized that they had to give as much attention to moving goods out of their doors and converting them into cash as they had previously focused on production. They quickly recognized that advertising and more aggressive personal selling were the tools to move products, and the sales manager’s position within many firms was upgraded to the level of the production manager and finance manager. Consumer goods firms that depended heavily on advertising created a corporate-level position for the advertising manager as well.

These aggressive tactics were successful for a while, but public pressure eventually caused laws against high-pressure sales techniques and false and misleading advertising to be passed. Consumers also wanted more than the products that companies wanted to sell them. A new approach to marketing was called for.

The Marketing Concept
In the 1950s the marketing concept emerged. As a business philosophy, the marketing concept is aimed at orienting a firm completely toward its customers. As such, a customer focus should permeate every department from production to finance to human resources. All major decisions should be based on the relevant market considerations. This does not, of course, mean that other activities in the organization must be completely subordinate to marketing. What it does mean is that managers should not make important decisions in any area without taking marketing implications into account.

This course is based on the modern approach to marketing, which embraces the marketing concept. There are three basic propositions of this approach.

**Customer focus:** Managers must shift their focus from an internal company perspective to the customer’s viewpoint. Successful marketing requires a complete understanding of buyers and their needs. Leading management authority Peter Drucker suggests that “the aim of marketing is to know and understand the customer so well that the product or service fits him and sells itself.”

**Coordination:** All elements of the marketing program—known as the marketing mix—constitute an interrelated system, and therefore the program must be viewed and planned as a whole. Also, marketing itself must be closely interrelated with other business activities.

**Profit orientation:** Profit, not just increased sales, is the goal of a firm. Because customer satisfaction is the path to profitability, customer focus is the logical focal point for profit planning.
Activity 1–1: Production Versus Marketing Orientation

Many firms have redefined their orientation to reflect the customer’s viewpoint. Using the first two companies as examples, provide a marketing orientation for the other four companies.

<table>
<thead>
<tr>
<th>PRODUCTION ORIENTATION</th>
<th>MARKETING ORIENTATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disney</td>
<td>We produce movies and run theme parks.</td>
</tr>
<tr>
<td></td>
<td>We provide fantasies and entertainment.</td>
</tr>
<tr>
<td>Prudential</td>
<td>We sell insurance.</td>
</tr>
<tr>
<td></td>
<td>We provide financial security.</td>
</tr>
<tr>
<td>American Airlines</td>
<td>We run an airline.</td>
</tr>
<tr>
<td>IBM</td>
<td>We make computers.</td>
</tr>
<tr>
<td>Sprint</td>
<td>We sell telecommunications services.</td>
</tr>
<tr>
<td>Amazon.com</td>
<td>We sell books and other products over the Internet.</td>
</tr>
</tbody>
</table>

See the Suggested Answers at the end of the chapter.

Relationship Marketing

The 1990s extended the marketing concept even further. Known as relationship marketing, this view assumes that an organization wants to form long-term relationships with its customers. Therefore, the focus of an organization’s efforts is not on creating transactions, but rather on satisfying and retaining customers, based on developing a relationship with the customer over time. The customer is viewed as a partner who will help the organization achieve its goals.

One of the proponents of this approach, international marketing consultant Regis McKenna, emphasizes that “marketing is everything.” A firm must use all of its knowledge and experience to adapt its goods and services to the unique needs of its customers. In this way, it will be able to develop mutually beneficial relationships with them. To implement relationship marketing, many companies, who in the past relied on mass marketing, are using more targeted and individualized means to communicate with their customers.

For business-to-business marketers, salespeople are frequently the focal point for relationships with customers. This aspect of marketing is discussed in Chapter 9. Marketers to consumers and small businesses use other techniques to develop and maintain relationships. These include newsletters, e-mail, telemarketing, special discounts and perks, and other loyalty marketing
programs. Examples of companies using these techniques successfully include American Express, General Motors, Marriott, and United Airlines.

The relationship approach to marketing sounds good, but it is difficult to put into practice. Some organizations have been slow to implement this customer-oriented philosophy of management. Resistance from executives in other functions and the difficulties of identifying buyers’ needs are two of the major problems. Unless everyone in the organization, from the chief executive officer down, recognizes the importance of working together to satisfy customers’ needs, the marketing concept will not work. For this approach to succeed, no important corporate decision should be made until the decision makers fully understand the marketing implications.

**MARKETING MANAGEMENT**

The long-term success of any organization is determined by the capabilities of its management. Since marketing must be the concern of every executive in an organization, managers at each level must understand the principles of marketing to make profitable decisions within their areas of responsibility.

Many founders or CEOs of successful companies take the lead role in marketing their products and companies. They develop and control the marketing strategy, oversee the sales effort, and may even appear in TV commercials. Marriott’s founder, J. Willard Marriott, Wendy’s Dave Thomas, and Amazon.com’s Jeffrey Bezos are noteworthy examples.

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**Think About It**

Several years ago *Sales & Marketing Management* identified the 80 most influential people in sales and marketing history. Some of the people included were:

- Sam Walton (Wal-Mart)
- Bill Gates (Microsoft)
- Fred Smith (Federal Express)
- Herb Kelleher (Southwest Airlines)
- Lillian Vernon (Lillian Vernon Corp.)
- Lee Iacocca (Ford and Chrysler)
- Phil Knight (Nike)
- Ted Turner (CNN)
- Mary Kay Ashe (Mary Kay Cosmetics)
- Richard Branson (Virgin Airways)
- Ruth Handler (Mattel)
- Akio Morita (Sony)

Why do you think these people were selected?

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The chief marketing executive is responsible for marketing management—the planning, implementation, and control of marketing activities. The person entrusted with these broad and complex responsibilities is an important member of the firm’s management, and may have a title such as a vice president of marketing, director of marketing, marketing manager, or manager of marketing and sales. The handling of these varied duties is subject to the judgment not only of the company’s chief executive, directors, and owners, but also of the firm’s customers and potential customers. The marketing executive’s skills and abilities are proved continuously in the marketplace every time a sale is made or lost.

The various roles of the marketing manager are shown in Exhibit 1–2. The focus is, of course, on the market that the company serves. The elements of the marketing mix—product, price, promotion, and distribution—are the decision variables that the manager uses to meet the needs of the market. Shown in the next ring are the management activities—analysis, planning, implementation, and control. The outer circle identifies the environmental forces that impact marketing.

The marketing management process is discussed in Chapter 3. The process begins with marketing analysis, a careful assessment of the current marketing situation. Then the marketing manager develops a marketing plan that must be implemented effectively. Control, which is the final management activity, involves making sure that plans are carried out properly and the organization’s objectives are met.

**Market**

An organization’s market is at the center of the model and the focal point for all marketing programs and activities. Therefore, marketing managers must try to learn as much as possible about the market for their company’s products. Because of the complexity and unpredictability of human behavior, however, the market for a company’s products is difficult to understand and predict.

The first and most essential question about the market is: Who are the customers? Then, depending on the product and its buyers, other questions to consider include: Why is the product purchased? When is it purchased? Where are customers located? How is the product bought? The answers to these and similar questions are essential to marketing planning and decision making.

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As we discuss in Chapter 2, there are many types of markets. They include consumers, businesses, organizations, and government. And all companies are concerned today with the growing importance of global markets and e-commerce.

**Global Markets**

A notable change for marketing managers in recent years has been the emergence of global markets. Even the smallest U.S. companies are selling to and competing with companies throughout the world. Western Europe, Japan, the emerging nations of the Pacific Basin, and, the more open Eastern European nations represent vast marketing opportunities for U.S. companies. Passage of the North American Free Trade Agreement (NAFTA) has dramatically increased trade among Canada, Mexico, and the United States.

Although the United States is the largest national market in the world with approximately 25 percent of the total world market for all products and
services, companies that want to grow must pursue global market opportunities. McDonald’s, for example, plans to open 90 percent of its new restaurants outside the United States. And Coca-Cola earns about 90 percent of its operating income and two-thirds of its revenue from its soft drink business outside the United States.

International markets are critical to the survival of a growing number of companies because so many domestic markets are mature or saturated. In contrast, many overseas markets are at an earlier development stage with substantial growth potential ahead. In New England, for example, textiles and jewelry are two examples of markets that are eroding in the face of increased foreign competition and declining demand. Yet many New England companies are flourishing because they have added a global component to their corporate strategies.

For example, Loctite Corporation, a producer of adhesives, sealants, and bonding agents, has grown rapidly in recent years. The majority of this firm’s growth came from outside the United States. Over 60 percent of Loctite’s sales now come from international markets.

There are other important reasons for placing increased emphasis on international markets. Growth overseas can serve to substantially extend a product’s life, letting a firm benefit longer and more extensively from its investment. The desire to counteract the cyclical nature of a company’s domestic business by adding geographically dispersed markets whose business cycles differ from the U.S. pattern is an important reason for international marketing. Excess capacity can be another motive for going abroad. All such reasons have as a goal the pursuit of growth opportunities and the stability resulting from broadening a firm’s sales bases.

It has been estimated that over one-fourth of a typical U.S. company’s sales are generated overseas. The most globally oriented firms generate between one-third and one-half of their total revenues from overseas sales, and many companies with world-renowned brands report that international sales are increasing at least 50 percent faster than domestic sales. U.S. companies with well-known brands that are prospering overseas include Johnson & Johnson, Procter & Gamble, Gillette, Cisco Systems, and Philip Morris.

E-Commerce

Until a few years ago, market transactions were limited by time and place constraints. This is no longer true. Advances in telecommunications and the rapid development of the Internet have provided market access 24 hours a day, seven days a week. And buyers can get information or order products from their home, office, or any other convenient location.

Electronic commerce, or e-commerce as it is usually called, involves the use of information and communication technology to market goods and services and conduct other business transactions. Electronic data interchange (EDI), e-mail, fax, electronic funds transfer (EFT), and the Internet are the primary methods businesses use. E-commerce may involve business-to-consumer (B2C) or business-to-business (B2B) transactions.

Estimates of the number of people on the Internet vary, but everyone agrees that the number of Internet users worldwide exceeds 150 million and
continues to grow rapidly. About half of the users are in the United States. Consumer spending on the Web is expected to reach $100 billion (about 6 percent of total retail sales) in 2002 or 2003. PC hardware and software, travel, entertainment, books, clothing, and financial services are the most frequently purchased products.

Consumer research reveals that Internet users are relatively young, well educated, affluent, and employed in professional and white-collar occupations. They have accepted technology and feel comfortable making purchases online. They also prefer a home-based lifestyle that offers more time for other pursuits. Most importantly, many consumers like the convenience of being able to quickly compare products and prices from a wide range of suppliers.

Business buyers have been ahead of consumers in embracing the Internet. From $8 billion in 1997, B2B sales are expected to exceed $200 billion in 2002. Business customers feel that the Web makes it easier to deal with multiple suppliers. This enables them to save time and get lower prices or better service. Makers of computers and other high-tech hardware and wholesalers of office supplies, electronic goods, and scientific equipment are leading Internet marketers.

THE MARKETING MIX

A convenient concept for explaining an organization’s marketing activities and the decisions made by marketing executives is the marketing mix. Just as a master chef prepares a mix of ingredients for a favorite recipe, a marketing manager combines the marketing activities to form a satisfactory marketing mix.

Each company must develop a marketing mix that is most appropriate for its products and target customers. To do this, marketing managers need information that is provided by marketing information systems, marketing research, and sales forecasting (see Chapter 4).

The major components of a company’s marketing mix are product, distribution, price, and promotion. These four elements are blended together to create a total package that will best satisfy the market’s needs.

Product

The term product refers to the goods and services that a company sells. The marketing manager must consider all the pertinent questions related to a company’s product. For example: What features should the product have? What form of packaging should be used? How many models are required? How important is quality? Should a brand or trademark be used? We discuss these and other factors of product planning and policies in Chapter 5.

Distribution

Distribution, which is concerned with the delivery of goods and services, addresses where and by whom goods and services are offered for sale. Sometimes called “place” (causing the marketing mix to be referred to as the “four Ps”), distribution is also concerned with the physical movement of products. With distribution, marketing managers are concerned with marketing struc-
Price

What a company charges for its products, or the price, is the third element of the marketing mix. Pricing a product must take into account many internal and external factors, including actual costs, desired profit margins, prices of competing products, and possible legal restrictions. The price must provide a fair return on the company's investment and yet not be beyond buyers' financial resources. Pricing policies and strategies are covered in Chapter 7.

Promotion

Promotion, the final element of the marketing mix, includes advertising, personal selling, public relations, and sales promotion. Promotion activities inform potential customers and others of the availability of a product or seller and attempt to persuade them to purchase a product or to take some other desired action. Promotion policies and techniques are considered in Chapters 8 and 9.

Two Examples

The marketing mixes of two watch manufacturers illustrate how vastly different approaches can succeed. Timex sells a relatively inexpensive watch that appeals to the mass market. Timex promotes the durability of its economical watches, has a broad line of low- to medium-priced watches, and distributes through many retail outlets, including variety, drug, and discount stores. On the other hand, Rolex has formulated a marketing mix that appeals to a specific market. Rolex focuses its promotion efforts on developing a quality image. Rolex watches are extremely expensive, and retail distribution is restricted to a small number of exclusive jewelry and specialty stores.

The successful marketing of Dell computers provides a second example. Apple, IBM, and other PC marketers relied on a traditional marketing mix strategy to sell the home PC market. This mix involved mass media advertising, in-store promotions, and distribution through specialty computer retailers. Sensing an opportunity, Dell Computer Corp. tried a different marketing mix strategy. Michael Dell, the firm's founder, sensed that many customers wanted a quality PC at a low price. He assembled the machines using inexpensive component parts, distributed these personal computers through a low-cost mail-order system, and passed the lower costs to consumers through reduced prices.

Environmental Forces

Marketing managers make decisions in a dynamic environment. There are many external factors over which the manager has little or no control. To simplify our discussion of the environment, we describe five different
environments: demographic, societal, political, economic, and physical. As shown in Exhibit 1–3, the marketing system is both influenced by and influences these environments.

**Demographic Forces**

*Demography* is the study of population issues and trends. For marketers, an understanding of population is essential. They must be aware of the size and growth rate of the population in their markets, age distribution, ethnic mix, educational levels, and other key factors.

Important demographic trends in the United States include the aging of the population—the “graying of America,” the increased ethnic and racial diversity of consumer markets, and the changing nature of households. These trends require that marketers adapt their products and services to meet the unique needs of different segments of the population.

The 50-plus age group is the fastest growing segment of the population. By 2010, the U.S. Census Bureau predicts that there will be more than 96 million adults age 50-plus. These “empty nesters” will require more healthcare and pharmaceutical products, but they will also purchase more luxury autos and take more expensive vacations than any other age group. That’s because the 50-plus age group controls 70 percent of the net worth in the United States. Other demographic factors used to segment markets are discussed in Chapter 2.
Think About It

Although the majority of Internet users are young, older people are going online. Once they learn to use the Internet, older people spend more time and money on average than any other demographic group. Which products and services are older people likely to buy over the Internet?

Suggestion

Older people buy most of the same products over the Internet as their younger counterparts. However, because of their age and discretionary wealth, they are more likely to buy medications, health and beauty products, travel and leisure activities, and financial services.

Societal Forces

The societal environment includes those cultural and social values, attitudes, and traditions that make up a society’s way of life. These factors affect marketing three important ways. First, social and cultural trends result in the introduction of new products and marketing practices. For many Americans, time pressures and the distance from loved ones are major issues in their lives. Busy people use laptops, Palm pilots, and pagers to manage their personal and business affairs and e-mail and cellular phones to keep in touch with family and friends. To accommodate more relaxed business customs, business casual attire has emerged for managers and other employees who are no longer required to wear suits or other formal clothing.

Second, new products and other marketing activities have an influence on social and cultural trends. New product innovations such as digital cameras and satellite television have had a major impact on our lives. Consider the importance of cellular phones to teenagers who have active social lives. Advertising and other promotional techniques also influence our society’s attitudes and values.

Third, constraints on marketing activities and practices are a major part of the societal environment. For example, certain products, such as cocaine and other drugs, cannot be sold legally in the United States; other products, such as alcoholic beverages and prescription medicines, are limited to qualified customers and retail outlets; and promotion of cigarettes and other tobacco products is restricted and must contain warning statements.

The impact of animal rights activists illustrates how changing cultural and social values can affect marketing. Cosmetics’ producers have lost sales and changed their product development process in response to protests against using animals to test new products. Some people refuse to eat veal...
because they object to the way calves are grown to produce veal. Antifur activists have succeeded in persuading some top designers to stop designing clothing using fur, and many celebrities have stopped wearing fur coats. Once regarded as prime status symbols, fur coats are now looked on with disfavor by many consumers.

The greatest impact of social and cultural forces takes place in global markets. Significant differences in religious beliefs, language, family status and values, attitudes toward work and leisure, and other factors influence buying behavior and marketing practices. For instance, McDonald's, KFC, and other fast-food retailers must adapt their products to local tastes. KFC replaced mashed potatoes on its menu in Japan because the Japanese prefer French fries. Religious beliefs also affect the type of food served or not served, such as pork products in the Middle East and beef in India. Vegetarian items often replace meat products on the menu.

Political Forces

Societal forces often lead to political action. The political environment includes formal legal constraints on a firm's operations and informal constraints in the form of organized political pressure or public opinion, such as that exerted by animal rights activists. In many situations, strong public opinion results in legislation. For example, children's safety advocates have spurred Congress and government agencies to adopt strict safety standards for toys, infant furniture, and car seats. Similar public opinion pressures resulted in the removal of cigarette commercials from radio and television.

Many federal, state, and local laws affect a marketing manager's decisions. The stated purposes of these laws are to protect the public and to preserve competition. On the federal level, antitrust laws are most important. Of particular interest to marketing managers are the Sherman Antitrust Act, which prohibits restraint of trade and attempts to monopolize; the Federal Trade Commission Act, which established the Federal Trade Commission to regulate competitive practices; the Clayton Act, which outlawed unfair trade practices; and the Robinson-Patman Act, which defined illegal price discrimination. These laws are discussed in more detail in connection with their impact on pricing.

Other federal and state laws are intended to protect consumers from unsafe products and deceptive marketing practices. The Wheeler-Lea Act was passed in 1938 to prohibit deceptive advertising and sales practices. It was one of the first laws specifically concerned with protecting consumers. Other consumer protection laws and government agencies, including the Food and Drug Administration and the Environmental Protection Agency, regulate the safety of drugs and medical devices, purity of food, product packaging and labeling, consumer credit practices, and environmental
abuses. Recently, fraudulent telemarketing practices have resulted in new legislation and stiffer penalties for unethical practices. These federal laws and many similar state and local laws provide marketers with legal guidelines that protect consumers.

Perhaps the most significant changes in the political environment took place in the last third of the twentieth century. Congress passed the Airline Deregulation Act and the Depository Institutions Deregulation Act in the belief that consumers would benefit from deregulation. Many industries have been drastically reshaped. In the telecommunications industry, for example, former Baby Bells such as SBC Communications and Verizon compete against long-distance carriers AT&T, MCI Worldcom, and Sprint, as well as cable companies and Internet service providers that offer phone services.

**Economic Forces**

The economic environment of marketing consists of those factors and processes that relate to the satisfaction of human needs through material goods and services and the resources used to provide satisfaction. In our free-enterprise economy, resources are allocated to needs by the marketplace. The marketing manager must understand this process and the economic implications for marketing. The manager must also understand the impact of the business cycle, interest rates, foreign debt, and other economic factors.

One important aspect of the economic environment is **demand**. Demand refers to the various amounts of a product that customers will buy at different prices during a given period of time. Three determinants of demand are the needs and wants of buyers, customers’ ability to buy, and customers’ willingness to buy. All three of these conditions must be present if there is to be demand for a product. An important task of the marketing manager is to analyze the demand for goods and services.

During the economic boom of the 1990s, the demand for many products and services grew rapidly. Investors in the stock market saw their investments grow and many used their profits to buy luxury autos, second homes, jewelry, and expensive vacation trips. The demand for other luxuries such as dining out and entertainment also grew during this period.

A second important aspect of the economic environment is **competition**. A marketing manager has little, if any, control over the actions of competitors. Nevertheless, competitors are a major restraining force on company sales. Most U.S. industries, except for a few regulated public utilities, are faced with keen competition from both domestic and international competitors. The manager must assess the competition’s intensity and form (that is, price or nonprice competition such as product differentiation, promotion, or channel strategy). For example, the tremendous competition between North
American and European airlines for the heavily traveled air routes between
the United States and Europe has resulted in expanded schedules, aggressive
promotion, and reduced fares.

The rise of giant global corporations has resulted in restructuring and
consolidation in many industries. From thousands of companies in the early
1900s, the automobile industry now has fewer than 20 major companies
worldwide, and only Ford and General Motors are American. Airlines,
telecommunications equipment, entertainment, and construction equipment
have undergone similar consolidation.

A third aspect of the economic environment is the cost of resources.
Maximum economic efficiency is attained by minimizing the costs of re-
sources used to produce and distribute goods and services. A company, divi-
sion, or other marketing entity will not maximize profits unless it can con-
trol costs. All marketing managers must understand the nature of the costs
for which they are responsible.

**Physical Forces**

The physical environment may be natural or created. The natural physical
environment consists of climate, geographic location, natural resources, and
other factors that must be considered when marketing plans are developed.
The marketing of housing, clothing, and recreational products and services
is impacted greatly by the natural environment. For example, a producer of
boating supplies locates distribution outlets close to major bodies of water.
Likewise, a producer of ski clothing and equipment hopes for a snowy win-
ter to increase sales.

Technology is used to create the physical environment. Unlike other
living things, people can modify the effects of the natural environment.
Rapid technological change is an accepted phenomenon of our society,
and thousands of new products are introduced every year. Many of these
products have a great impact on our lives and business decisions. Using
a personal computer to communicate with friends, relatives, and busi-
ness associates throughout the world via e-mail; shopping for products
over the Internet; and conducting financial transactions electronically
are just a few of the actions that have become commonplace for many
people.

For high-tech companies like Cisco, Microsoft, and Lucent Technolo-
gies, keeping up with changes in technology is crucial. Lucent, formerly
part of AT&T, lost out on the rapid growth of the optical transmission
switch market because the company failed to anticipate its phone-company
customers’ demands for faster switches. Lucent decided to design its
switches for capacity rather than speed. By 2000 Nortel, Lucent’s major
competitor, had 45 percent of the $6 billion world market (vs. Lucent’s 15
percent).
Activity 1–2: Environmental Assessment

Select a specific product, company, or industry. For each of the five environmental forces, list key trends that impact the marketing process.

<table>
<thead>
<tr>
<th>FORCE</th>
<th>KEY TRENDS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demographic</td>
<td></td>
</tr>
<tr>
<td>Societal</td>
<td></td>
</tr>
<tr>
<td>Political</td>
<td></td>
</tr>
<tr>
<td>Economic</td>
<td></td>
</tr>
<tr>
<td>Physical</td>
<td></td>
</tr>
</tbody>
</table>

See the Suggested Answers at the end of the chapter.
Marketing is a dynamic, exciting discipline. It has become not only an increasingly important business function but also a valuable activity for not-for-profit and social organizations.

The marketing concept, which emphasizes a coordinated effort to satisfy customers’ needs and achieve the organization’s goals, is the philosophy guiding today’s marketing managers. Marketers must strive to create and build long-term relationships with customers. Based on an analysis of customers’ needs, firms try to develop a marketing program that will be most appropriate for their products and customers. Known as the “marketing mix,” this consists of the product, distribution, promotion, and price variables.

In today’s complex world, marketing managers must plan and make decisions in a constantly changing environment. They must be aware of and be able to adapt their marketing programs to the demographic, societal, political, economic, and physical environments. Perhaps the most crucial environmental forces affecting modern marketers are global markets, the rapid increase of technological change, and the changes in industries resulting from deregulation and consolidation.
SUGGESTED ANSWERS

Activity 1–1
A marketing orientation for the four companies could be expressed as follows.

- American Airlines “moves people and goods” or “provides transportation services.”
- IBM “makes businesses more productive” or “provides ways to acquire and use information.”
- Sprint “meets the communications needs of people and organizations” or “provides access to people and information.”
- Amazon.com “provides information and access to what you want to buy” or “offers a unique interactive buying experience.”

Activity 1–2
Your responses for this activity depend on the product, company, or industry you select. Some examples of key trends include the following. Some of these may impact what you selected.

<table>
<thead>
<tr>
<th>FORCE</th>
<th>KEY TRENDS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demographic</td>
<td>• Increased diversity of the U.S. population</td>
</tr>
<tr>
<td></td>
<td>• Aging of the population</td>
</tr>
<tr>
<td></td>
<td>• Shift of population to the South and West</td>
</tr>
<tr>
<td>Societal</td>
<td>• Growing concern for the environment</td>
</tr>
<tr>
<td></td>
<td>• More relaxed standards for business attire (“business casual”)</td>
</tr>
<tr>
<td></td>
<td>• More liberal views toward sexual orientation</td>
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<tr>
<td>Political</td>
<td>• Deregulation of telecommunications, transportation, and financial services industries</td>
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<td></td>
<td>• Election of new Republican president in 2000</td>
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<td>• End of the Cold War during the 1990s</td>
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<tr>
<td>Economic</td>
<td>• Stock market slump (“bear” market) in 2000 and 2001</td>
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<td></td>
<td>• Globalization of world markets</td>
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<td>• Changes in interest rates by the Federal Reserve</td>
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<tr>
<td>Physical</td>
<td>• Major snowstorms, floods, hurricanes, and the like that disrupt business</td>
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<tr>
<td></td>
<td>• Different climatic conditions (Arizona vs. Minnesota)</td>
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<tr>
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<td>• Higher than average summer temperatures in the Northeast</td>
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</table>
1. The philosophy of the marketing concept emphasizes three basic propositions. These are customer focus, profit orientation, and:
   (a) coordination.
   (b) sales volume.
   (c) competitiveness.
   (d) efficiency.

2. In the 1990s, marketing scholars and managers began to emphasize that the focus of marketing should not be on creating transactions but rather on creating and building:
   (a) market share.
   (b) customer relationships.
   (c) profit margins.
   (d) customer awareness.

3. The four elements of the marketing mix are:
   (a) advertising, product, sales, and price.
   (b) product, price, production, and promotion.
   (c) product, price, distribution, and promotion.
   (d) promotion, product, sales, and distribution.
4. Magic Party and Catering Company plans and caters parties for businesses and consumers. Which of the following statements would best reflect a customer-focused orientation?
(a) We sell food for parties.
(b) We plan parties.
(c) We provide fun and excitement for your guests.
(d) We are in the catering business.

5. The owner of a large resort hotel in New Hampshire is likely to be most concerned with which of the following environmental factors?
(a) Societal trends, such as changing cultural values
(b) Political factors, such as legal constraints
(c) Physical conditions, such as geography and climate
(d) Demographic forces, such as increased diversity of the population