The Importance of Marketing

Financial success often depends on marketing ability. Finance, operations, accounting, and other business functions will not really matter **if** there is not sufficient demand for products and services so the company can make a profit. Many companies have now created a Chief Marketing Officer, or CMO, position to put marketing on a more equal footing with other C-level executives such as the Chief Executive Officer (CEO) and Chief Financial Officer (CFO). Press releases from organizations of all kinds—from consumer goods makers to health care insurers and from non-profit organizations to industrial product manufacturers—trumpet (announce loudly) their latest marketing achievements and can be found on their Web sites. In the business press, countless articles are devoted to marketing strategies and tactics.

Marketing is tricky, **however**, and **it** has been the Achilles' heel of many formerly prosperous companies. Large, well-known businesses such as Sears, Levi's, General Motors, Kodak, and Xerox have confronted newly empowered customers and new competitors, and have had to rethink their business models. Even market leaders such as Microsoft, Wal-Mart, Intel, and Nike recognize that they cannot afford to relax. Jack Welch, GE's brilliant former CEO, repeatedly warned his company: "Change or die."

But making the right decisions is not always easy. Marketing managers must make major decisions such as what features to design into a new product, what prices to offer customers, where to sell products, and how much to spend on advertising or sales (see Figure 1). **They** must also make more detailed decisions such as the exact wording or color for new packaging. The companies at greatest risk are those that fail to carefully monitor their customers and competitors and to continuously improve their value offerings. **They** take a short-term, sales-driven view of their business and ultimately, they fail to satisfy their stockholders, their employees, their suppliers, and their channel partners. Skillful marketing is a never-ending pursuit.

FIG 1 The "Marketing Memo" is a good checklist for the questions marketing managers ask

What is Marketing?

Marketing deals with identifying and meeting human and social needs. One of the shortest definitions of marketing is "meeting needs profitably." The American Marketing Association offers the following formal definition: *Marketing is an organizational function and a set of processes for creating, communicating, and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stake holders.* Marketing management takes place when at least one party to a potential exchange thinks about the means of achieving desired responses from other parties.

We see marketing management as *the art and science of choosing target markets and getting, keeping, and growing customers through creating, delivering, and communicating superior customer value.* We can distinguish between a social and a managerial definition of marketing. A social definition shows the role (that) marketing plays in society. One marketer said that marketing's role is to "deliver a higher standard of living." **Here** is a social definition that serves our purpose: *Marketing is 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.* For a managerial definition, marketing has often been described as "the art of selling products," **but** people are surprised when they hear that the most important part of marketing is not selling! Selling is only the tip of the marketing iceberg. Peter Drucker, a leading management theorist, puts **it** this way: There will always be need for some selling. **But** the aim of marketing is to make selling superfluous. The aim of marketing is to know and understand the customer so well that the product or service fits him and sells itself. Ideally, marketing should result in a customer who is ready to buy. All that should be needed then is to make the product or service available. When Sony designed its Play Station, when Gillette launched its Mach III razor, and when Toyota introduced its Lexus automobile, these manufacturers were swamped with orders because they had designed the "right" product based on careful marketing homework.

Markets

Traditionally, a "market" was a physical place where buyers and sellers gathered to buy and sell goods. Economists describe a market as a collection of buyers and sellers who transact over a particular product or product class (e.g., the housing market or grain market). Modern economies abound in such markets. Five basic markets and their connecting flows are shown in Figure 2.

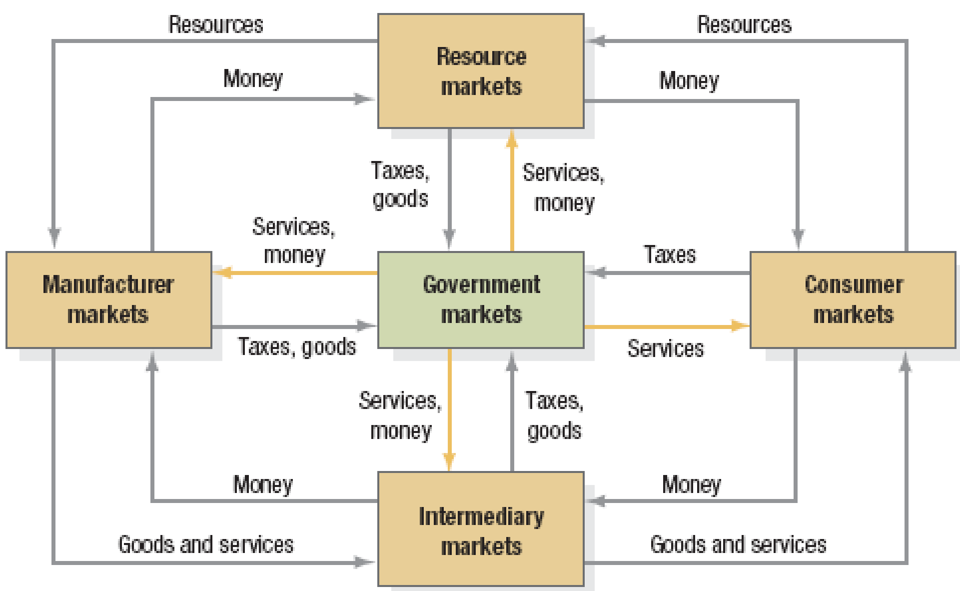

FIG. 2 Structure of flows in a modern exchange economy

Manufacturers go to resource markets (raw material markets, labor markets, money markets), buy resources and turn them into goods and services, and then sell finished products to intermediaries, who sell them to consumers. Consumers sell their labor and receive money with which they pay for goods and services. The government collects tax revenues to buy goods from resource, manufacturer, and intermediary markets and uses these goods and services to provide public services. Each nation's economy and the global economy consist of complex interacting sets of markets linked through exchange processes.

On the other hand, marketers often use the term *market* to cover various groupings of customers. They view the sellers as constituting the industry and the buyers as constituting the market. They talk about need markets (the diet-seeking market), product markets (the shoe market), demographic markets (the youth market), and geographic markets (the French market); or they extend the concept to cover other markets, such as voter markets, labor markets, and donor markets. Figure 3 shows the relationship between the industry and the market. Sellers and buyers are connected by four flows. The sellers send goods and services and communications (ads, direct mail) to the market; in return they receive money and information (attitudes, sales data). The inner loop shows an exchange of money for goods and services; the outer loop shows an exchange of information.

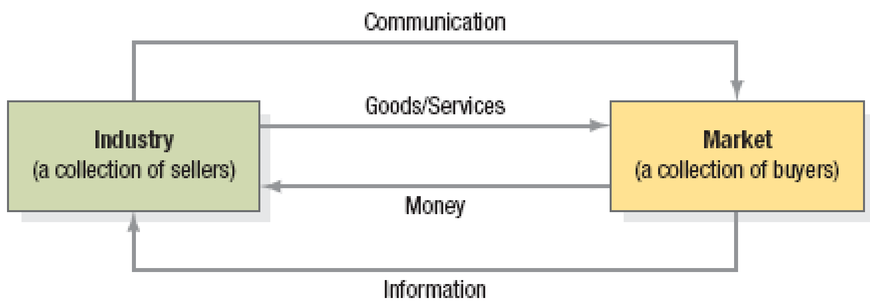

FIG. 3 A simple marketing system

Exchange and Transactions

A person can obtain a product in one of four ways. One can self-produce the product or service, as when one hunts, fishes, or gathers fruit. One can use force to get a product, as in a holdup or burglary. One can beg, as happens when a homeless person asks for food; or one can offer a product, a service, or money in exchange for something he or she desires. ***Exchange***, which is the core concept of marketing, is the process of obtaining a desired product from someone by offering something in return. For exchange potential to exist, five conditions must be satisfied:

1. There are at least two parties.
2. Each party has something that might be of value to the other party.
3. Each party is capable of communication and delivery.
4. Each party is free to accept or reject the exchange offer.
5. Each party believes **it** is appropriate or desirable to deal with the other party.

Whether exchange actually takes place depends on whether the two parties can agree on terms that will leave them both better off (or at least not worse off) than before. **Since** exchange normally leaves both parties better off, **it** is a value-creating process.

Two parties are engaged in exchange if they are negotiating—trying to arrive at mutually agreeable terms. **When** an agreement is reached, we say that a transaction takes place. A ***transaction*** is a trade of values between two or more parties: A gives X to B and receives Y in return. Smith sells Jones a television set and Jones pays $400 to Smith. **This** is a classic monetary transaction; but transactions do not require money as one of the traded values. A barter transaction involves trading goods or services for other goods or services, as when lawyer Jones writes a will for physician Smith in return for a medical examination.

A transaction involves several dimensions: at least two things of value, agreed-upon conditions, a time of agreement, and a place of agreement. A legal system supports and enforces compliance on the part of the transactors. Without a law of contracts, people would approach transactions with some distrust, and everyone would lose.

A transaction differs from a transfer. In a ***transfer***, A gives X to B but does not receive anything tangible in return. Gifts, subsidies, and charitable contributions are all transfers. Transfer behavior can also be understood through the concept of exchange.

Typically, the transferer expects to receive something in exchange for his or her gift—for example, gratitude or seeing changed behavior in the recipient. Professional fund-raisers provide benefits to donors, **such as** thank-you notes, donor magazines, and invitations to events. Marketers have broadened the concept of marketing to include the study of transfer behavior as well as transaction behavior.

In the most generic sense, marketers seek to elicit a behavioral response from another party. A business firm wants a purchase, a political candidate wants a vote, a church wants an active member, and a social-action group wants the passionate adoption of some cause. Marketing consists of actions undertaken to elicit desired responses from a target audience.

To make successful exchanges, marketers analyze what each party expects from the transaction. Simple exchange situations can be mapped by showing the two actors and the wants and offerings flowing between them. Suppose JD, a well-known worldwide leader in agricultural equipment, researches the benefits that a typical large-scale farm enterprise wants when it buys tractors, combines, planters, and sprayers. **These benefits** include high-quality equipment, a fair price, on-time delivery, good financing terms, and good parts and service. The items on this want list are not equally important and may vary from buyer to buyer. One of JD's tasks is to discover the relative importance of these different wants to the buyer. JD also has a want list. **It** wants a good price for the equipment, on-time payment, and good word of mouth. **If** there is a sufficient match or overlap in the want lists, a basis for a transaction exists. JD's task is to formulate an offer motivating the large-scale farm enterprise to buy agricultural equipment. The farm enterprise might in turn make a counteroffer. **This process** leads to mutually acceptable terms or a decision not to transact.

What is Marketed?

Marketing people are involved in marketing 10 types of entities: goods, services, events, experiences, persons, places, properties, organizations, information, and ideas. Many market offerings consist of a variable mix of **goods** and **services**. At a fast-food restaurant, for example, the customer consumes both a product and a service. By orchestrating several services and goods, a firm can create, stage, and market **experiences**. **Properties** are intangible rights of ownership of either real property (real estate) or financial property (stocks and bonds). Properties are bought and sold, and **this** requires marketing. **Information** can be produced and marketed as a product. **This** is essentially what schools and universities do. Even companies that sell physical products attempt to add value through the use of information. For example, the CEO of Siemens Medical Systems says, "our product is not necessarily an X-ray or an MRI, but information. And every market offering includes a basic **idea**. Charles Revson of Revlon observed: "In the factory, we make cosmetics; in the store we sell hope."

Activity

Identify the type of entity represented by each one of the activities described below

- Professionals working within or for companies, such as accountants.
- The Olympics or World Cup that are promoted aggressively to both companies and fans.
- The trade shows, artistic performances, and company anniversaries.
- The customers who visit a fairy kingdom, a pirate ship, or a haunted house.
- The companies that market billions of fresh, canned, bagged, and frozen food products.
- The cities that compete actively to attract tourists, factories, and new residents.
- Universities and museums that compete for audiences and funds.
- Someone who pays for climbing Mount Everest.
- Companies that spend money on corporate identity ads.
- The work of airlines, hotels, and car rental firms.