

CHAPTER 1: MARKETING'S VALUE TO CONSUMERS, FIRMS, AND SOCIETY

CHAPTER 1--COMMENTS ON QUESTIONS AND PROBLEMS

- 1- 1. This question is intended to stimulate the same kind of thinking that is prompted by the introduction to the chapter. The point is to encourage students to take a more personal view of marketing--and how it affects their lives. Clearly, different students will provide different types of responses. At this early point in the class, some students will still take a narrow view--and focus on advertising they heard or on a specific product they tried. Others will have thought in more depth about the thrust of the chapter--and they will deal with a broader set of activities and marketing influences.
- 1- 2. This is really just a contemporary variation on the "better mousetrap" line of thought--framed in the context of an important new technology. Even so, it deals with the question of whether it is "enough" just to develop a good new product that serves an important need. It is certainly possible that web-surfing consumers--on their own initiative--might be able to use the Internet to find out about an important new product and then could go further and get all of the information about it that they might need. But, as a practical matter, that was also true for most new products before the Internet existed. The problem is that with millions of pages of material on the Internet few consumers are likely to simply stumble across information that they need. There are software tools that make it efficient to find information that they know they want, but if they don't know they want it they won't look.
- 1- 3. The macro view of marketing is concerned with how a whole marketing system works, while the micro view of marketing is concerned with how individual firms do and/or should operate. In a market-directed economy, the actions of individual firms *and* consumers pretty much determine how the macro system works. But it is possible for others, including the government, to modify the macro-marketing system. It is important to see that individual business firms are only part of the macro-marketing system and their role and apparent efficiency may be affected by others--including consumers and the government; i.e., consumers acting through their representatives.
- 1- 4. Answers to this question will vary from student to student. The point of the question is to prompt the student to think more deeply about the concepts of separation of information and separation of time between consumers and producers. Exhibit 1-1, which is referenced in the question, appears on page 9 of the text. Separation of time results because consumers may not want to consume goods at the time they are produced, and time may be required to transport goods from producer to consumer. Student responses about how these separations are overcome will usually focus on transporting, storing, and functions provided by intermediaries.

Separation of information occurs because producers do not know who needs what, where, when and at what price. Consumers do not know what is available from whom, where, when and at what price. For example, if you want to take a trip by plane you usually know where you want to go and when, but you typically have little idea about what airline, what flight, and at what cost.

If the instructor wishes, this question can be used to preview the special problems that sometimes arise in "service" firms as they try to overcome these separations. For example, services are often consumed as they are produced--since services usually cannot be stored or transported. This means that the producer may need to overcome the possible separation themselves by locating near customers. But, this may result in duplication of facilities, difficulties in achieving economies of scale, and problems in balancing supply and demand.

These topics are developed in more detail in Chapter 8 of the text.

- 1- 5. This question seeks to get the students to see that considerable planning and thinking has gone into providing products which they might like at a convenient or suitable store. A few minutes can be profitably spent developing the idea that there is some order and rationale to the products that one sees in the marketplace and the system that delivers them.
- 1- 6. See pp. 9-11.
- 1- 7. There is no doubt that growth of the Internet will open up new marketing opportunities--it already has, and so far we're just seeing the tip of the iceberg. Will growth of these services ultimately eliminate the need for retailers and wholesalers? Perhaps over the longer run we will see services such as these taking over for some types of retailers and wholesalers. Clearly, at present the focus of the Internet (and other similar network systems) is on fast, interactive communication. In the past, most marketing communication has been limited--it's one way communication from seller to buyer--except in the case of personal selling. The Internet, direct response cable TV, and even toll-free telephone systems are quickly changing that.

The Internet can help to overcome separation in time and information. It might also be possible to create very diverse "virtual" assortments of products that are practical because they are available to a very large number of people. Thus, the Internet is well suited for the buying and selling function (in some situations) and the market information functions. As such, it might also reduce some of the risk that otherwise might be inherent in transactions. On the other hand, someone is likely to need to deal with the transporting and storing functions and perhaps standardization and grading.

While the person or company that sells over the Internet may not take the form of a retail store, it's useful to remind students that firms that sell out of a catalog are already using the basic approach characteristic of electronic shopping over a computer network. What is different here is the sophistication of the technology and speed of the communication more than the basic way the operation works.

- 1- 8. A small producer might want an independent marketing research firm to take over some of its information gathering activities if the research specialists can do the job more effectively (i.e., with greater accuracy) or more efficiently (i.e., at lower cost) than the firm could do it. The focus here should be on the possibilities of capturing the advantages (skill, experience) of specialists without the firm having to make that investment itself. Because a research firm works for a number of different client firms, it can develop economies of scale at what it does. Specialists in research design, data analysis, statistical interpretation, and the like can each contribute to a better overall research effort. Even if the small producer could afford to hire a few marketing research specialists, a full team of specialists with different skills probably would not make sense--or be affordable. (Of course, the disadvantage of outsiders is that they may not know as much about the specific firm and its specific markets. Discussion of this "make or buy" issue applies to many of the marketing activities--and it is a theme that will come up again...for example, with respect to use of intermediaries in channels and agencies for planning advertising).
- 1- 9. In a command economy, government officials decide what and how much is to be produced and distributed by whom, when, and to whom. In a market-directed economy, on the other hand, producers and consumers make their own economic decisions. That is, the producers decide what they are going to offer, and consumers decide, independently, which of all of the offerings they will accept. In other words, the economy is directed by the "market mechanism" that relies on many micro level decisions by individual producers and consumers. Each decision may be small, but together they determine the macro level decisions for the whole economy.

- 1-10. The students should be led to see that the evolution of wholesaling and retailing, as we have traced it, was the result of enterprising businesses attempting to satisfy consumers more efficiently. Some organizations have started with government support, but basically most of our business organizations were formed to make a profit serving consumers. In contrast, in a command economy, some consumer-oriented, but not necessarily profit-oriented, government official would have to evolve a similar system. Consumer satisfaction--especially of every whim--might be played down, but basically the government official would have to satisfy consumers or expect complaints or even revolution. Some government official would have to decide what was to be produced, who was to produce it, and who was to receive the fruits of production. Further, all the marketing functions would have to be provided by someone. See pages 12-14. In a market-directed economy, most of these decisions are made by the interplay of market forces, sometimes very casually described as "supply and demand." In such an economy, the plans, hopes, and efforts of individual entrepreneurs--all competing with each other--make the decisions that in a command economy must be made by a relatively few planners.

Some good students have difficulty visualizing the development of a wholesaling and retailing system under a command economy. They can see the possibility of operating a simple agrarian community where everyone shares according to his needs; but as these economies grow, they have difficulty seeing how such a system can expand (i.e., what or who directs the growth and who provides the risk capital). As has been hypothesized by some economists, perhaps a command economy would not naturally evolve into an advanced system. Incentives may be necessary to keep a command economy growing. And "black markets" may have to develop to adjust for "errors" in planning by government officials. Historically, "black markets" usually develop when there is planning and/or rationing, unless very severe penalties are imposed (and this may only raise the price!).

- 1-11. Students will give many different examples here. The basic point is that a market-directed system encourages innovation because there is incentive (profit) to find a better way to meet customers' needs. Competition is also a related issue. As one new idea is developed and proves to be a success, other competing firms tend to adapt or copy it. Thus, there is constant pressure on firms to find new and better ways to do things--because yesterday's breakthroughs and successes become today's "old" product.
- 1-12. The marketing concept is defined on page 16. A firm must have some objective to guide its efforts--and a profit orientation provides such an objective. But the marketing concept says that an organization should have more than just profit as an objective. It should attempt to satisfy some customers *and* make a profit. Profit can be seen not only as an objective but as a constraint if one really gets carried away with the marketing concept. If a marketing manager really wanted to satisfy some customers very well, he could design a very pleasing marketing mix for them that might include *free* products or services! Adding profit in the definition, however, would preclude such a move. In other words, the marketing concept insists on some balance between fully satisfying some target customers and meeting a firm's own objectives.
- 1-13. The question is intended to deepen the students' understanding of the marketing concept. Applying it to the local situation can be illuminating, especially if there has been much discussion of the role of the student in college affairs. Substantial change might be indicated in some circumstances. But at the same time, it should be seen that "all" students' views (not just those of the few self-appointed "spokespersons") should be considered. Further, this may be a place to bring in the customer value concept with consideration of benefits and costs. And both long- and short-run implications for both the students' welfare and the institutions' welfare should be considered. By considering the problem of balancing conflicting long- and short-run objectives of different groups, they may come to see that applying the marketing concept is not easy--and they may better understand why it is not as widely accepted (or at least well implemented) as they might expect. What they see locally is probably typical of most

institutions--academic, government, and business.

1-14. Distinguishing between a "production orientation" and a "marketing orientation" is not always easy because the differences may not be readily observable--that is, they may be more in the mind and attitude of the business manager or his firm than in his physical facilities or actions. Nevertheless, flagrant examples of bad service or excessive concern with a firm's own internal activities are easy to find. Examples include: banks which are open only from ten to three on Monday through Friday; supermarkets which are not open at night or on Sunday when consumers would find it more convenient to shop; retail salesclerks who are more concerned with stocking the shelves than answering customers' questions; engineers who design consumer products with primary concern for ease of manufacturer rather than dependability or ease of use.

1-15. If the marketing concept is accepted and the firm comes to see that all the activities of the firm ought to be directed toward satisfying some customers' needs at a profit, then it is obvious that all the internal activities should be integrated as well--into a "total system."

The illustrations are required to force the students to become more specific. Various answers could be suggested by students, but the focus should be on what happens if one or more parts of the firm act independently. For example, if production-oriented research people had their way within a large grocery products producer, they might produce some products which could not be sold. Or the production department might produce large quantities of goods that could not be sold--at least at a profit. It is the job of the marketing manager and top management (which should be market-oriented) to integrate all these efforts into one "total system."

1-16. Students will come up with a variety of benefits and costs associated with the products for this question. At this point in their thinking about customer value, it is probably less important that they be detailed or exhaustive in coming up with examples than it is that they grasp the concept that each product (actually, each marketing mix) may have a variety of different benefits and costs. A class discussion is likely to highlight some cases when one student sees something as a benefit, but a different student argues that it is not so much a benefit as it is a cost if it is missing (e.g., good gas mileage may be a benefit of a car, or it may represent a cost if it is missing). The fact that different customers may "frame" benefits and costs in different ways is not treated as an important distinction in the literature on customer value. On the other hand, it can be useful to know when this sort of difference occurs because it is at least indirectly related to customer expectations.

(a) Wrist watch: Benefits: accuracy, attractiveness, durability, warranty, and status; Costs: the opposite of any of the above as well as factors such as hard to service, lack of warranty, price paid, or missing a needed battery.

(b) Weight-loss diet supplement: Benefits: more self-esteem, more energy, greater sex appeal, convenient to prepare or consume; Costs: any unfavorable side effects (nervousness, high blood pressure, etc), difficult or inconvenient to obtain, high price.

(c) Cruise on a luxury liner: Benefits: excitement, variety, relaxation, pleasure, social interactions; Costs: boredom, fear (say, of a fire or of the boat sinking), sea-sickness, expense.

(d) Checking account from a bank: Benefits: convenience, record of spending (and in some cases cancelled checks), ability to obtain cash; Costs: monthly fees, check fees, fees for bounced checks, record keeping hassles, inconvenience of going to bank, some businesses do not accept checks, time to show identification.

1-17. Student answers will vary significantly here. The purpose of the question is to prompt students to think more deeply about the difference between buyer-seller exchange and the opportunities that exist for more enduring relationships, especially when a customer is likely to have the same need (or a similar need) again in the future.

One good way to prompt discussion of this question is to ask students to write down a couple of the most important things that the seller could do to strengthen the relationship. Next, call

on a few students to explain the relationship they had in mind. Then, ask a few students to read their suggestions without going into much detail on the particulars of the purchase situation. The interesting thing here is that the recommendations about what the seller could do often apply across many different types of selling situations. This is valuable for students to see that there are indeed "general lessons" that arise from thinking about how to better satisfy customers.

- 1-18. High performance cars are fun, and their popularity has been enduring. At the same time, as accident statistics show, people driving high performance cars are more likely to be in accidents. High performance cars also tend to use more fuel and to spew more fumes into the atmosphere. These side effects impact consumers who are not interested in owning or driving a high performance car. Over time there has been discussion of regulations to limit the top speed or horsepower of cars offered for sale. After all, the speed limit is still 55 on most highways, but in many places it is 65 or even 75. However, there seems to be very little popular support for the idea of limiting the choices that individual consumers can make in this product area.

Nuclear power is an emotional issue. Many people object to the use of nuclear power because of the risks involved. And, as the Three Mile Island incident and similar accidents show, the risks are real. Yet, in some areas there are not cost-effective alternatives to nuclear power. Thus, using other sources of power might sometimes force people who do object to the risk of nuclear power to pay a higher price for energy. Here, what different individuals want may vary. Yet, in the event of an accident everyone might be affected.

Many consumers like the convenience of bank credit cards. They don't like to carry cash, but want to be able to make purchases when the need arises. On the other hand, critics argue that "instant credit" encourages many people--especially the poor--to spend money they don't have. Some economists also argue that "too-easy" credit has had serious economic effects--because many Americans do not save as they once did. Another issue here is the cost of providing credit services. Banks take a percent of the revenue from credit card purchases--and there is a cost of "bad debt" that is included in the cost of using cards. Some critics argue that all consumers--not just those who use credit cards--have to pay higher prices because of this. Of course, some firms offer two prices--one for credit card purchases and one for cash.

For a number of people, the use of pesticides represents a dilemma. On the one hand, the use of pesticides improves the quantity and quality of agricultural yields and thus increases the availability and reduces the cost of many types of farm products. This presumably increases the quality of life and leaves more time/money for purchases that are not necessities. On the other hand, there are some undesirable side effects related to the use of pesticides. For example, run-off of pesticides from fields into lakes, streams, and rivers (or into groundwater in other ways) has the potential to contaminate drinking water. Some people think that the use of pesticides leaves toxic residue in or on crops, and that there is a serious hazard, over time, of eating food that has been treated with pesticides. Other critics argue that the use of pesticides results in the development of more robust (mutated) strains of insects--ones that are an even bigger problem (and which require even stronger pesticides because they become resilient to what is currently used). In highly developed economies, where people are in general adequately fed, it is understandable that much attention might be focused on higher order needs related to the use or misuse of pesticides. However, in third-world agricultural economies where production and distribution of food are still major problems, there is not likely to be much attention to--or concern about--the potential negative effects of pesticides. In that context, the benefits seem to clearly outweigh the costs. In other words, how one views a micro-macro dilemma may depend in large part on the severity of the different needs that might be involved, and the likelihood of the negative outcomes being realized.

DISCUSSION OF COMPUTER-AIDED PROBLEM 1: REVENUE, COST, AND PROFIT RELATIONSHIPS

This is a simple "practice" problem to introduce students to the software, to sensitivity analysis, and to revenue, cost, and profit relationships--a recurring theme in later problems.

The spreadsheet for this problem involves only a few rows. The focus of the questions is on making certain that the student knows how to "read" the spreadsheet. The various questions involved also lead the student through the steps of using the various features in the PLUS software.

The PLUS software is easy to use--and most students will "get up to speed" with it very quickly. But, for some students, working with the PLUS software will be their first experience with microcomputers, with spreadsheet concepts, and more generally in working with marketing numbers. These students may have concerns about their own ability to handle such material. Working this problem will help these students develop confidence--as well as a base of skills to build upon in later problems.

If the instructor decides not to schedule this "practice" problem as a required first assignment, it might be good to encourage students--especially those who do not have previous experience with microcomputers or spreadsheets--to spend a few minutes with this problem before moving on to the substantive problems that follow. The focus of later problems is on the marketing concepts related to a manager's decisions. It is important for students to see that the software is just a tool to facilitate the marketing analysis--that "getting the numbers" is not an end in itself. This practice problem will help to cultivate this point of view.

This is the initial spreadsheet for this problem:

P L U S - SpreadSheet		
	Calendar	Notebook
Selling Price	5.00*	2.00*
Quantity Sold	2700*	6000*
Revenue (Price x Quantity)	13500.00	12000.00
Total Cost	11500.00	9000.00*
Profit or Loss (Revenue - Total Cost)	2000.00	3000.00

Answers to Computer-Aided Problem 1:

- a. This question just encourages the student to study the spreadsheet layout and understand the numbers on the screen. The answers, as can be seen from the initial spreadsheet display above, are as follows:

Revenue from Calendars	\$13,500
Revenue from Notebooks	\$12,000
Profit from Calendars	\$ 2,000
Profit from Notebooks	\$ 3,000

- b. If Quantity Sold remains 2,700 and the price of calendars is increased to \$6.00, then

Revenue from Calendars	\$16,200
Profit from Calendars	\$ 4,700

This question encourages students to do their own "checking" of numbers from the spreadsheet. The objective here is not just to get them to do arithmetic, but rather to make them realize that in this spreadsheet (and all the others that follow!), that they can "follow" how the numbers on the spreadsheet are computed by studying the labels on the spreadsheet--and in the event of any remaining uncertainty by doing a few simple calculations themselves--as a check. You may want to emphasize this point--as it will help eliminate uncertainty later when they get to more detailed problems. If they see from the start that they can always study the "flow" of the spreadsheet display and figure out how numbers are being calculated, it will be less confusing for them. With very few exceptions (noted in this manual), the calculations on the spreadsheet are very straightforward. The spreadsheets are set up so that the "intermediate" steps in calculations are easy to follow. This helps the student develop skill in seeing how to organize and analyze problems.

The spreadsheet from which the answers for this problem are reported will look like this:

P L U S - SpreadSheet		
	Calendar	Notebook
Selling Price	6.00*	2.00*
Quantity Sold	2700*	6000*
Revenue (Price x Quantity)	16200.00	12000.00
Total Cost	11500.00	9000.00*
Profit or Loss (Revenue - Total Cost)	4700.00	3000.00

The calculations are straightforward:

$$\text{Revenue} = \text{Price} \times \text{Quantity} = \$6.00 \times 2,700 \text{ units} = \$16,200$$

$$\text{Total cost} = \$11,500 \text{ (directly from the problem description and the spreadsheet)}$$

$$\text{Profit} = \text{Revenue} - \text{Total Cost} = \$16,200 - \$11,500 = \$4,700.$$

- c. This question simply introduces the student to the PLUS program What If capability. The What If data display for this result is given below.

P L U S - What If Data Display		
-Notebook- Selling Price	-Notebook- Revenue	-Notebook- Profit or loss
1.60	9600.00	600.00
<u>1.68</u>	10080.00	<u>1080.00</u>
1.76	10560.00	1560.00
1.84	11040.00	2040.00
1.92	11520.00	2520.00
2.00	12000.00	3000.00
2.08	12480.00	3480.00
2.16	12960.00	3960.00
2.24	13440.00	4440.00
2.32	13920.00	4920.00
<u>2.40</u>	14400.00	<u>5400.00</u>

The correct answers are underlined in the Display. Profit reaches \$5,400 at a price of \$2.40 and is \$1,080 when the price is \$1.68.

CHAPTER 1--COMMENTS ON USE OF SUGGESTED CASES WITH THIS CHAPTER

Case 1: McDonald's "Seniors" Restaurant

This case can be used to illustrate what marketing and business is all about--anticipating the material in Chapter 2--on market-oriented strategy planning--without introducing the technical words which are discussed there and in subsequent chapters. Here, the emphasis can be on the problem of developing a compatible marketing program that includes a marketing plan (strategies) for different customer groups at different times of the day. Many people feel that a firm should have only one strategy and it is desirable to get rid of this idea as quickly as possible. This case can also be used to show that business can have a "social" dimension. And in this case, the McDonald's manager and personnel are concerned about their customers and actually have visited some "seniors" in the hospital. Now they are considering offering bingo. See case discussion in Part V.

Case 2: Sunnyvale Foods, Inc.

This case can be used to illustrate a production-oriented company—as well as showing the need for target marketing to escape from the low profits which usually result from selling “commodities” against many other production-oriented competitors who are doing the same thing. See case discussion in Part V.

Case 18: Ralston Valley Volunteer Fire Department

If this case is used with Chapter 1, the instructor may have to introduce students to some of the terminology used in the case. This includes the concept of promotion objectives and the AIDA model. But these concepts are pretty easy to explain and the rest of the case can be discussed in a simple manner. The case helps students see how marketing can apply in a non-traditional situation. See case discussion in Part V.

Video Case 1: Chick-fil-A

This video summarizes the marketing strategy of Chick-fil-A®, the second largest quick-service chicken restaurant chain in the United States, based on sales (\$1.975 billion in 2005). It operates over 1,250 restaurants in 37 states and Washington, D.C. Its 2005 performance marks the 38th consecutive year of system-wide sales gain. The case provides a nice overview of the micro-marketing. For more details see the Video Instructor's Manual on the Instructor's Resource CD or the Instructor side of the Online Learning Center (www.mhhe.com/fourps).

CHAPTER 1--COMMENTS ON USE OF ETHICS QUESTION WITH THIS CHAPTER

Situation: A customer purchases a Sony digital camera that comes with a 90-day manufacturer's warranty on parts and labor. The salesperson suggests that the customer consider the store's three-year extended service to cover any problems with the camera. The customer replies, "I'm getting a Sony because it's a reputable brand—and at \$98 the service agreement is one-third the cost of the camera." Four months later, the customer returns to the store and complains that the camera no longer takes pictures and that "the store needs to make it right." If you were the store manager, what would you say? Would your response be any different if you knew that the customer was going to post his complaint on a consumer website?

Some students may have encountered a situation like this – either as a consumer or as an employee working in a retail store. And even if a student has not had a warranty expire right before something bad happens to the product, it is likely that in purchasing an electronic product the student has had to decide whether to buy an extended warranty.

While stores (or their suppliers) often have policies about how to handle needed repairs or similar problems that come in shortly after a warranty expires, a store manager may be empowered to make exceptions.

This situation allows for discussion of a variety of topics. One concerns the extent to which customers are responsible for the choices they make. The customer was offered the extended warranty – and made the decision, on her own, to not purchase it. The customer also decided to purchase the Sony rather than some other brand that might have had a longer manufacturer's warranty. The store might be able to get Sony to honor the warranty, but we don't know here if that is possible or if the store manager would want to try. Manufacturers worry that retailers sometimes misrepresent *when* problems with a product occurred to “give customers a break” or pass an out-of-warranty problem back to the manufacturer.

The manager might want to consider how her response may affect the store's reputation (effects which may be greatly magnified by the threat of posting online). The discussion could also reference the marketing concept – where the foundations of profit and customer satisfaction may be seen as at odds in this situation.

One aspect of this situation that may be relevant to thinking about the questions may not be obvious to students. Some well known companies, including Sony, intentionally place relatively short warranty periods on their products, even though their products may be priced at a premium relative to other brands. Other firms, like Samsung or Panasonic, might offer a 6-months or 1-year warranty on the same type project. Students may think about this situation differently if they realize that the combination of Sony's powerful brand name and shorter warranty period gives retailers a greater opportunity to sell the extended warranty and make extra profit on the sale. For this reason, the retailer (or salespeople who work on commission) may have extra incentive to “push” the Sony brand. The retailer likes the chance to “bundle” the sale of the popular-brand product and the warranty. It becomes an ethical balancing act for the salesperson to say “this is a great brand” but in the next breath to say “but you should protect yourself with a longer warranty because repairs can be very expensive.” *Consumer Reports* and most other consumer organizations advise against buying extended service agreements on just about any product—because they are not a good value. Most problems arise within the warranty period anyway. So some students may argue that it is not ethical to sell service agreements. If other students don't counterargue, it may be useful to ask whether consumers are required to buy the agreement and, further, whether it's ok to let consumers (who don't want the risk) decide if it's worth the price.

CHAPTER 1--COMMENTS ON USE OF CREATING MARKETING PLANS QUESTION WITH THIS CHAPTER

Note: The Creating Marketing Plans questions begin in Chapter 2