

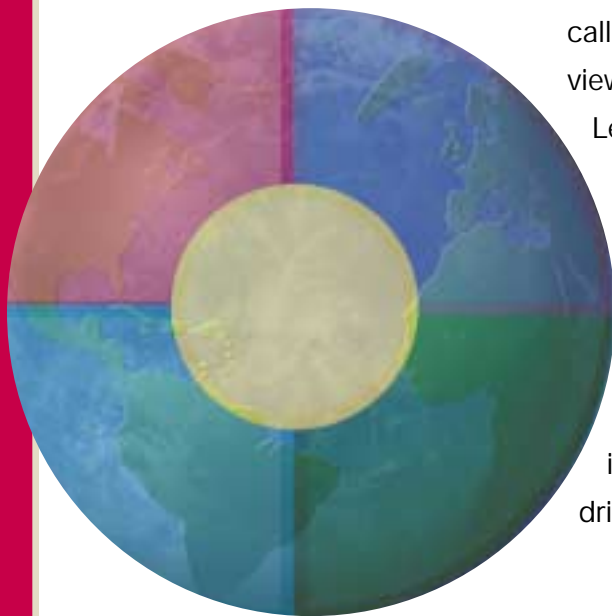
When You Finish This Chapter, You Should

1. Know what marketing is and why you should learn about it.
2. Understand the difference between micro-marketing and macro-marketing.
3. Know why and how macro-marketing systems develop.
4. Understand why marketing is crucial to economic development and our global economy.
5. Know why marketing specialists—including middlemen and facilitators—develop.
6. Know the marketing functions and who performs them.
7. Understand the important new terms (shown in red).

Chapter One

Marketing's Role in the Global Economy

When it's time to roll out of bed in the morning, does your Sony alarm clock wake you with a buzzer or playing your favorite radio station? Is the station playing hip-hop, classical, or country music—or perhaps a Red Cross ad asking you to contribute blood? Will you slip into your Levi's jeans, your shirt from Abercrombie and Fitch, and your Nikes, or does the day call for your Brooks Brothers interviewing suit? Will breakfast be Lender's Bagels with cream cheese or Kellogg's Frosted Flakes—made with grain from America's heartland—or some extra-large eggs and Oscar Mayer bacon cooked in a Panasonic microwave oven imported from Japan? Will you drink Maxwell House decaf coffee



place
promotion
price
product



grown in Colombia or some Tropicana Orange Juice? Will you eat at home or is this a day to meet a friend at the Marriott-run cafeteria—where you'll pay someone else to serve your breakfast? To figure out what the day holds, will you need to log on to AOL to check your e-mail, or perhaps check the calendar on your Palm? Will you head off to

school or work in a VW Beetle or on a bus that the city bought from General Motors, or is this the right kind of day to dust off your Razor scooter?

When you think about it, you can't get very far into a day without bumping into marketing—and what the whole marketing system does for you. It affects every aspect of

our lives—often in ways we don't even consider.

In other parts of the world, people wake up each day to different kinds of experiences. A family in China may have little choice about what food they will eat or where their clothing will come from. A farmer in the mountains of Jamaica may awake in a barren hut with little more than the hope of raising enough to survive. A businessperson in a large city like Tokyo may have many choices but not be familiar with products that have names like Maxwell House, General Motors, and Oscar Mayer.

What explains these differences, and what do they have to do with marketing? In this chapter, we'll answer questions like these. You'll see what marketing is all about and why it's important to you. We'll also explore how marketing affects the quality of life in different societies and why it is so crucial to economic development and our global economy.

place price
promotion product

Service Master helps hospitals improve a new mom's satisfaction with the hospital by serving "celebration meals."



Marketing—What's It All About?

Marketing is more than selling or advertising

If forced to define marketing, most people, including some business managers, say that marketing means "selling" or "advertising." It's true that these are parts of marketing. But *marketing is much more than selling and advertising.*

How did all those bicycles get here?

To illustrate some of the other important things that are included in marketing, think about all the bicycles being peddled with varying degrees of energy by bike riders around the world. Most of us weren't born sitting on a bicycle. Nor do we make our own bicycles. Instead, they are made by firms like Schwinn, Performance, Huffy, and Murray.

Most bikes are intended to do the same thing—get the rider from one place to another. But a bike rider can choose from a wide assortment of models. They are designed in different sizes, with different frames for men and women, and with or without gears. Off-road bikes have large knobby tires, and the tires on racing bikes are narrow. Some bikes have hand brakes and others have foot brakes. Kids and older people may want more wheels—to make balancing easier; clowns want only one wheel, to make balancing more interesting. And some bikes need baskets or even trailers for cargo or an infant seat for a small passenger. You can buy a basic bike for less than \$50. Or, you can spend more than \$2,500 for a custom frame—not including the handcrafted wheels that you order over the Internet.

This variety of styles and features complicates the production and sale of bicycles. The following list shows some of the many things a firm should do before and after it decides to produce a bike.

1. Analyze the needs of people who might buy a bike and decide if they want more or different models.
2. Predict what types of bikes—handlebar styles, type of wheels, weights, and materials—different customers will want and decide which of these people the firm will try to satisfy.

3. Estimate how many of these people will be riding bikes over the next several years and how many bikes they'll buy.
4. Predict exactly when these people will want to buy bicycles.
5. Determine where in the world these bike riders will be and how to get the firm's bikes to them.
6. Estimate what price they are willing to pay for their bikes and if the firm can make a profit selling at that price.
7. Decide which kinds of promotion should be used to tell potential customers about the firm's bikes.
8. Estimate how many competing companies will be making bikes, how many bikes they'll produce, what kind, and at what prices.
9. Figure out how to provide warranty service if a customer has a problem after buying a bike.

The above activities are not part of **production**—actually making goods or performing services. Rather, they are part of a larger process—called *marketing*—that provides needed direction for production and helps make sure that the right goods and services are produced and find their way to consumers.

Our bicycle example shows that marketing includes much more than selling or advertising. We'll describe marketing activities in the next chapter. And you'll learn much more about them before you finish this book. For now, it's enough to see that marketing plays an essential role in providing consumers with need-satisfying goods and services and, more generally, in creating customer satisfaction. Simply put, **customer satisfaction** is the extent to which a firm fulfills a customer's needs, desires, and expectations.

How Marketing Relates to Production

Production is a very important economic activity. Whether for lack of skill and resources or just lack of time, most people don't make most of the products they use. Picture yourself, for example, building a 10-speed bicycle, a DVD player, or an electronic watch—starting from scratch! We also turn to others to produce services—like health care, air transportation, and entertainment. Clearly, the high standard of living that most people in advanced economies enjoy is made possible by specialized production.

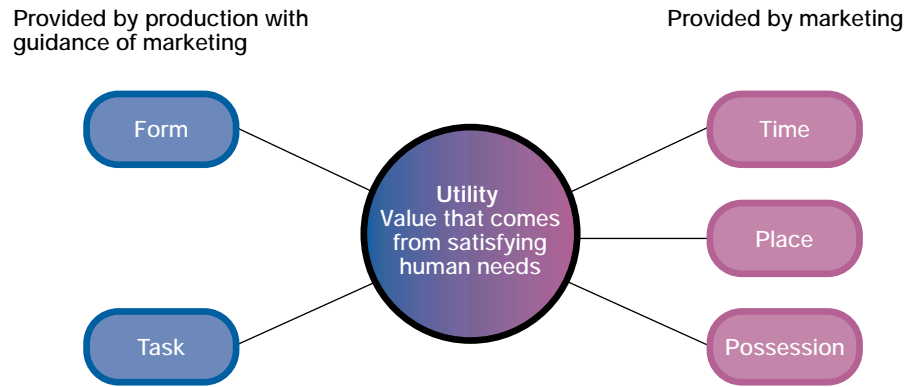
Bicycles, like mousetraps, don't sell themselves

Although production is a necessary economic activity, some people overrate its importance in relation to marketing. Their attitude is reflected in the old saying: "Make a better mousetrap and the world will beat a path to your door." In other words, they think that if you just have a good product, your business will be a success.

The "better mousetrap" idea probably wasn't true in Grandpa's time, and it certainly isn't true today. In modern economies, the grass grows high on the path to the Better Mousetrap Factory—if the new mousetrap is not properly marketed. We have already seen, for example, that there's a lot more to marketing bicycles than just making them. This is true for most goods and services.

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

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



Bicycles do not automatically provide utility

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

This is how marketing thinking guides the production side of business. Marketing decisions focus on the customer and include decisions about what goods and services to produce. It doesn't make sense to provide goods and services consumers don't want when there are so many things they do want or need. Let's take our "mousetrap" example a step further. Some customers don't want *any kind* of mouse trap. They may want someone else to produce a service and exterminate the mice for them, or they may live where mice are not a problem. Marketing is concerned with what customers want, and it should guide what is produced and offered. This is an important idea that we will develop more completely later.

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

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

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

Stated simply, marketing provides time, place, and possession utility. It should also guide decisions about what goods and services should be produced to provide form utility and task utility. We'll look at how marketing does this later in this chapter. First, we want to discuss why you should study marketing, and then we'll define marketing.

Marketing Is Important to You

Marketing is important to every consumer

One important reason for learning about marketing is that marketing affects almost every aspect of your daily life. All the goods and services you buy, the stores where you shop, and the radio and TV programs paid for by advertising are there because of marketing. Even your job résumé is part of a marketing campaign to sell yourself

By working to understand the needs of its customers, wherever they are, Toyota has successfully adapted to marketers all around the world.



to some employer! Some courses are interesting when you take them but never relevant again once they're over. Not so with marketing—you'll be a consumer dealing with marketing for the rest of your life.

Another reason for studying marketing is that you—as a consumer—pay for the cost of marketing activities. In advanced economies, marketing costs about 50 cents of each consumer dollar. For some goods and services, the percentage is much higher.

Marketing will be important to your job

Marketing Manager for Consumer Electronics

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

Still another reason for studying marketing is that there are many exciting and rewarding career opportunities in marketing. Marketing is often the route to the top. Throughout this book you will find information about opportunities in different areas of marketing—in sales, advertising, product management, marketing research, distribution, and other areas. And Appendix C is all about career planning in marketing.

Even if you're aiming for a nonmarketing job, you'll be working with marketing people. Knowing something about marketing will help you understand them better. It will also help you do your own job better. Throughout the book, we'll discuss ways that marketing relates to other functional areas—and Chapter 20 focuses on those issues. Further, remember that marketing is important to the success of every organization. A company that can't successfully sell its products doesn't need accountants,

financial managers, production managers, personnel managers, computer programmers, or credit managers.

Even if you're not planning a business career, marketing concepts and techniques apply to nonprofit organizations too. Many nonprofit organizations have a marketing manager. And the same basic principles used to sell soap are also used to “sell” ideas, politicians, mass transportation, health care services, conservation, museums, and even colleges. Think about the school where you take this course. If you didn't know about its offerings—or if they didn't interest you—you would simply pick some other school.¹

Marketing affects economic growth

An even more basic reason for studying marketing is that marketing plays a big part in economic growth and development. Marketing stimulates research and new ideas—resulting in innovative new goods and services. Marketing gives customers a choice among products. If these products satisfy customers, fuller employment, higher incomes, and a higher standard of living can result. An effective marketing system is important to the future of all nations.²

How Should We Define Marketing?

As we said earlier, some people think of marketing too narrowly as “selling and advertising.” On the other hand, one author defined marketing as the “creation and delivery of a standard of living.”³ That definition is too broad.

An important difference between the two definitions may be less obvious. The first definition is a *micro*-level definition. It focuses on activities performed by an individual organization. The second is a *macro*-level definition. It focuses on the economic welfare of a whole society.

Micro- or macro-marketing?

Which view is correct? Is marketing a set of activities done by individual firms or organizations? Or is it a social process?

To answer this question, let’s go back to our bicycle example. We saw that a producer of bicycles has to perform many customer-related activities besides just making bikes. The same is true for an insurance company, an art museum, or a family-service agency. This supports the idea of marketing as a set of activities done by individual organizations.

On the other hand, people can’t survive on bicycles and art museums alone! In advanced economies, it takes thousands of goods and services to satisfy the many needs of society. For example, a typical Wal-Mart store carries more than 100,000 different items, and its Supercenter carries more than 20,000 additional grocery items, many of them perishable. A society needs some sort of marketing system to organize the efforts of all the producers and middlemen needed to satisfy the varied needs of all its citizens. So marketing is also an important social process.

Internet

Internet Exercise You can check out the online shopping experience of Wal-Mart on the web by going to the Wal-Mart home page (www.wal-mart.com) and clicking on “Go Shopping.”

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

Micro-Marketing Defined

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

Let’s look at this definition.⁴

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



Applies to profit and nonprofit organizations

To begin with, this definition applies to both profit and nonprofit organizations. Profit is the objective for most business firms. But other types of organizations may seek more members—or acceptance of an idea. Customers or clients may be individual consumers, business firms, nonprofit organizations, government agencies, or even foreign nations. While most customers and clients pay for the goods and services they receive, others may receive them free of charge or at a reduced cost through private or government support.

More than just persuading customers

You already know that micro-marketing isn't just selling and advertising. Unfortunately, many executives still think it is. They feel that the job of marketing is to "get rid of" whatever the company happens to produce. In fact, the aim of marketing is to identify customers' needs and meet those needs so well that the product almost "sells itself." This is true whether the product is a physical good, a service, or even an idea. If the whole marketing job has been done well, customers don't need much persuading. They should be ready to buy. And after they do buy, they'll be satisfied and ready to buy the same way again the next time.

Begins with customer needs

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

Does not do it alone

This does not mean that marketing should try to take over production, accounting, and financial activities. Rather, it means that marketing—by interpreting customers' needs—should provide direction for these activities and try to coordinate them. After all, the purpose of a business or nonprofit organization is to satisfy customer or client needs. It is not to supply goods and services that are convenient to produce and *might* sell or be accepted free.

Builds a relationship with the customer

When marketing helps everyone in a firm really meet the needs of a customer both before and after a purchase, the firm doesn't just get a single sale. Rather, it has a

sale and an ongoing *relationship* with the customer. Then, in the future, when the customer has the same need again—or some other need that the firm can meet—other sales will follow. That's why we emphasize that marketing concerns a *flow* of need-satisfying goods and services to the customer. Often, that flow is not just for a single transaction but rather is part of building a long-lasting relationship that is beneficial to both the firm and the customer.

The Focus of This Text—Management-Oriented Micro-Marketing

Since you are probably preparing for a career in management, the main focus of this text will be on micro-marketing. We will see marketing through the eyes of the marketing manager.

It is important to keep in mind that the micro-marketing ideas and decision areas we will be discussing throughout this text apply to a wide variety of situations. They are important not only for large and small business firms but also for all types of public sector and nonprofit organizations. They apply to new ventures started by a single entrepreneur as well as to ongoing efforts by teams of people in corporations. They are useful in domestic markets and international markets and regardless of whether the organization focuses on marketing physical goods, services, or an idea or cause. They are equally critical whether the relevant customers or clients are individual consumers, businesses, or some other type of organization. In short, every organization needs to think about its markets and how effectively it meets its customers' or clients' needs. For editorial convenience, and to reflect the fact that most readers will work in business settings, when we discuss marketing concepts we will sometimes use the term *firm* as a shorthand way of referring to any type of organization, whether it is a political party, a religious organization, a government agency, or the like. However, to reinforce the point that the ideas apply to all types of organizations, throughout the book we will illustrate marketing management concepts with examples that represent a wide variety of marketing situations.

Although micro-marketing is the primary focus of the text, marketing managers must remember that their organizations are just small parts of a larger macro-marketing system. Therefore, the rest of this chapter will look at the macro view of marketing. Let's begin by defining macro-marketing and reviewing some basic ideas. Then, in Chapter 2, we'll explain the marketing management decision areas we will be discussing in the rest of the book.

Macro-Marketing Defined

Macro-marketing is a social process that directs an economy's flow of goods and services from producers to consumers in a way that effectively matches supply and demand and accomplishes the objectives of society.

Emphasis is on whole system

Like micro-marketing, macro-marketing is concerned with the flow of need-satisfying goods and services from producer to consumer. However, the emphasis with macro-marketing is not on the activities of individual organizations. Instead, the emphasis is on *how the whole marketing system works*. This includes looking at how marketing affects society, and vice versa.

Every society needs a macro-marketing system to help match supply and demand. Different producers in a society have different objectives, resources, and skills. Likewise, not all consumers share the same needs, preferences, and wealth. In other

words, within every society there are both heterogeneous (highly varied) supply capabilities and heterogeneous demands for goods and services. The role of a macro-marketing system is to effectively match this heterogeneous supply and demand *and* at the same time accomplish society's objectives.

Is it effective and fair?

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

Let's look more closely at macro-marketing.⁵ And to make this more meaningful to you, consider (1) what kind of a macro-marketing system you have and (2) how effective and fair it is.

Every Society Needs an Economic System

All societies must provide for the needs of their members. Therefore, every society needs some sort of **economic system**—the way an economy organizes to use scarce resources to produce goods and services and distribute them for consumption by various people and groups in the society.

How an economic system operates depends on a society's objectives and the nature of its political institutions.⁶ But regardless of what form these take, all economic systems must develop some method—along with appropriate economic institutions—to decide what and how much is to be produced and distributed by whom, when, to whom, and why. How these decisions are made may vary from nation to nation. But the macro-level objectives are basically similar: to create goods and services and make them available when and where they are needed—to maintain or improve each nation's standard of living or other socially defined objective.

How Economic Decisions Are Made

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

Government planners may make the decisions

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

Government planning may work fairly well as long as an economy is simple and the variety of goods and services is small. It may even be necessary under certain

conditions—during wartime, drought, or political instability, for example. However, as economies become more complex, government planning becomes more difficult. It may even break down. Planners may be overwhelmed by too many complex decisions. And consumers may lose patience if the planners don't respond to their needs. The collapse of communism in Eastern Europe dramatically illustrates this. Citizens of what was the Soviet Union were not satisfied with the government's plan—because products consumers wanted and needed were not available. To try to reduce consumer dissatisfaction, government planners tried to put more emphasis on making consumer goods available, but they were not able to produce the results consumers wanted. In short, it was consumer dissatisfaction with decisions made by government planners that brought about a revolution—one that is leading to the development of market-directed economies in the republics of Eastern Europe.⁷

Countries such as China, North Korea, and Cuba still rely primarily on planned economic systems. Even so, around the world there is a broad move toward market-directed economic systems—because they are more effective in meeting consumer needs.

A market-directed economy adjusts itself

In a **market-directed economic system**, the individual decisions of the many producers and consumers make the macro-level decisions for the whole economy. In a pure market-directed economy, consumers make a society's production decisions when they make their choices in the marketplace. They decide what is to be produced and by whom—through their dollar "votes."

Price is a measure of value

Prices in the marketplace are a rough measure of how society values particular goods and services. If consumers are willing to pay the market prices, then apparently they feel they are getting at least their money's worth. Similarly, the cost of labor and materials is a rough measure of the value of the resources used in the production of goods and services to meet these needs. New consumer needs that can be served profitably—not just the needs of the majority—will probably be met by some profit-minded businesses.

In summary, in a market-directed economic system the prices in both the production sector (for resources) and the consumption sector (for goods and services) vary to allocate resources and distribute income according to consumer preferences. Over time, the result is a balance of supply and demand and the coordination of the economic activity of many individuals and institutions.

Greatest freedom of choice

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

Similarly, producers are free to do whatever they wish—provided that they stay within the rules of the game set by government and receive enough dollar "votes" from consumers. If they do their job well, they earn a profit and stay in business. But profit, survival, and growth are not guaranteed.

Conflicts can arise

Producers and consumers making free choices can cause conflicts and difficulties. This is called the **micro-macro dilemma**. What is "good" for some producers and consumers may not be good for society as a whole.

Gun control in the U.S. is an example. Each year thousands of people are killed with handguns. Yet there are producers who make and sell handguns at a profit. And there are many consumers who feel strongly about their right to own guns. But



others argue that handguns are a threat to society. They want handgun sales banned and sales of all weapons limited—as is the case in many countries. Should gun producers be allowed to sell guns to consumers who want them?

Decisions don't have to involve life and death issues to be important. Many Americans want the convenience of disposable products and products in easy-to-use, small-serving packages. But these same “convenient” products and packages often lead to pollution of the environment and inefficient use of natural resources. Should future generations be left to

pay the consequences of pollution that is the result of “free choice” by today's consumers?

Questions like these are not easy to answer. The basic reason is that many different people may have a stake in the outcomes—and social consequences—of the choices made by individual managers and consumers in a market-directed system. As you read this book and learn more about marketing, you will also learn more about social responsibility in marketing and why it must be taken seriously.

The role of government

The American economy and most other Western economies are mainly market-directed—but not completely. Society assigns supervision of the system to the government. For example, besides setting and enforcing the “rules of the game,” government agencies control interest rates and the supply of money. They also set import and export rules that affect international competition, regulate radio and TV broadcasting, sometimes control wages and prices, and so on. Government also tries to be sure that property is protected, contracts are enforced, individuals are not exploited, no group unfairly monopolizes markets, and producers deliver the kinds and quality of goods and services they claim to be offering.

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

To Most Moms It's A Bleach. To Mother Nature, It's Salt And Water.

It's A Little Known Fact That After Use Clorox® Bleach Breaks Down To Little More Than Salt And Water.

The same Clorox bleach you've relied on all these years is also an environmentally sound choice. That's because it breaks down naturally to simple elements after use, just as it always has. And if you didn't know that, then there are some simple uses of Clorox Bleach you may be missing out on.

Did you know Clorox Bleach extends the life of freshly cut flowers? It's true. Just add 1/4 teaspoon (20 drops) of Clorox Bleach to each quart of water used in your vase.

And did you know pouring Clorox Bleach down your sink is an easy and environmentally sound way to get rid of clogs in the disposal? That's because Clorox Bleach works quickly and always breaks down to little more than salt and water after use.

That's the great thing about Clorox Bleach. No matter how or where you use it, it's always an environmentally sound choice, as the diagram shows. And that's something you and mother nature can both feel good about.

The Simple Solution For A Healthy Home.

This small change helped reduce waste. In the environment and the supply system.

They say you can't have your cake and eat it too. But that's precisely what's happening with many of our environmental initiatives at P&G. We've reduced packaging, reduced raw materials and reduced the energy used in manufacturing, all while improving consumer value. You've seen these improvements in many P&G products, like our compact detergents, Ultra Downy® and our compressed packaging for diapers, paper products and coffee. These improvements are good for the environment, good for consumers, and as it turns out, good for the supply system. Because with the reduced sizes, these products are more efficient to ship and handle. They take up less space in inventory. And require less energy to transport. In fact, initiatives like these can increase your true profit on every case. You can find out more about other P&G environmental initiatives in our 1995 Environmental Progress Report. Who would have thought that sound environmental practices would be good for business, too?

Procter & Gamble

You can see that we need some of these government activities to make sure the economy runs smoothly. However, some people worry that too much government “guidance” threatens the survival of a market-directed system and the economic and political freedom that goes with it. For example, in the past 15 years the U.S. government has done much less “interfering”—especially in markets for services such as electricity, banking, transportation, and communications. The vigorous competition among telephone companies is a good example of what follows. About 15 years ago AT&T was the only long-distance service provider and a government agency controlled its prices and services. Now many different types of telecom companies compete for that business, and decisions about prices and services are made by marketing managers and by what consumers choose.

The U.S. is not alone in reducing regulation and government control of markets. One clear indication of this is the trend toward privatization, which means that an activity previously owned and operated by the government is sold to private sector owners who manage it in a competitive market. For example, many countries that previously owned airlines have sold the airlines and changed regulations so that there is more competition among various carriers.

On the other hand, there are some areas where there seems to be a more active government role in planning and control—including health care and issues related to the environment. Some consumers might benefit by such changes, yet more government control would reduce consumer choice.⁸

All Economies Need Macro-Marketing Systems

At this point, you may be saying to yourself: All this sounds like economics—where does marketing fit in? Studying a *macro-marketing* system is a lot like studying an economic system except we give more detailed attention to the “marketing” components of the system—including consumers and other customers, wholesalers and retailers, and other marketing specialists. We focus on the activities they perform and how the interaction of the components affects the effectiveness and fairness of a particular system.

In general, we can say that no economic system—whether centrally planned, market-directed, or a mix of the two—can achieve its objectives without an effective macro-marketing system. To see why this is true, we will look at the role of marketing in primitive societies. Then we will see how macro-marketing tends to become more and more complex in advanced economic systems.

Marketing involves exchange

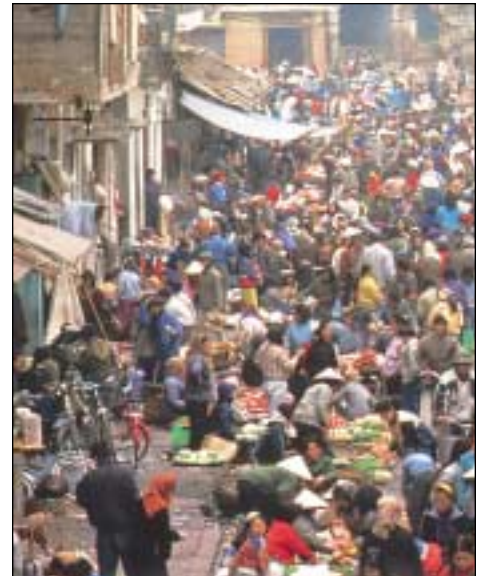
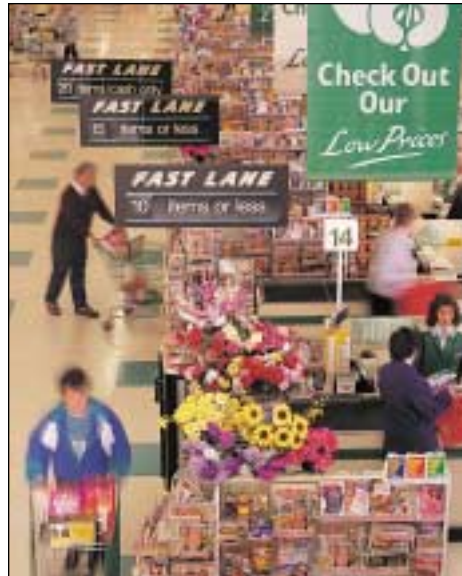
In a **pure subsistence economy**, each family unit produces everything it consumes. There is no need to exchange goods and services. Each producer–consumer unit is totally self-sufficient, although usually its standard of living is relatively low. No marketing takes place because *marketing doesn’t occur unless two or more parties are willing to exchange something for something else*.

What is a market?

The term *marketing* comes from the word **market**—which is a group of potential customers with similar needs who are willing to exchange something of value with sellers offering various goods and/or services—that is, ways of satisfying those needs. Of course, some negotiation may be needed. This can be done face-to-face at some physical location (for example, a farmers’ market). Or it can be done indirectly—through a complex network that links middlemen, buyers, and sellers living far apart.

In primitive economies, exchanges tend to occur in central markets. **Central markets** are convenient places where buyers and sellers can meet one-on-one to

In advanced economies, a complex network of wholesalers, retailers, and other marketing specialists bring goods and services to consumers; in developing economies like Vietnam, central markets are often more basic.



exchange goods and services. In our information age, central markets take a variety of forms—ranging from suburban shopping centers to websites that operate in cyberspace. But you will understand macro-marketing better if you see how and why central markets develop. We'll start with a very simple case, but thinking about it will clarify what happens when a more complex system is involved.

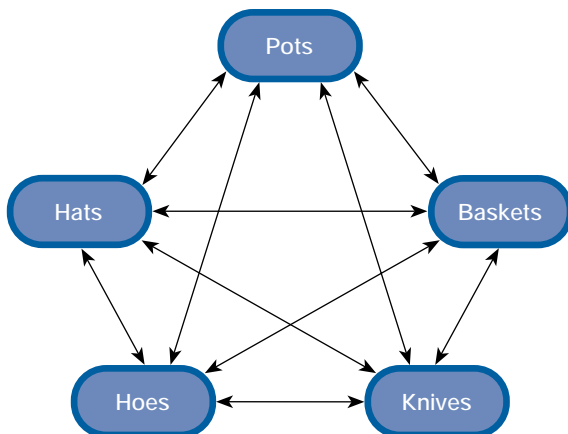
Central markets help exchange

Imagine a small village of five families—each with a special skill for producing some need-satisfying product. After meeting basic needs, each family decides to specialize. It's easier for one family to make two pots and another to make two baskets than for each one to make one pot and one basket. Specialization makes labor more efficient and more productive. It can increase the total amount of form utility created. Specialization also can increase the task utility in producing services, but for the moment we'll focus on products that are physical goods.

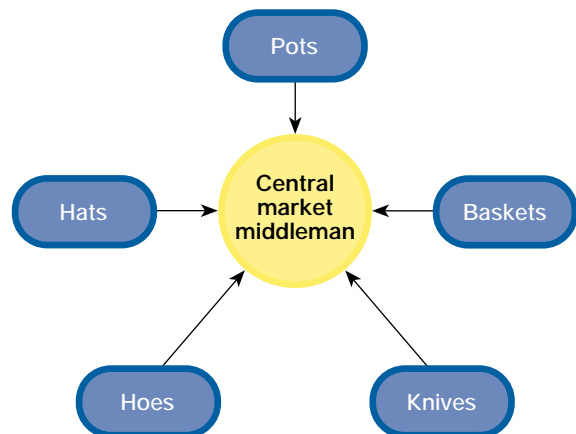
If these five families each specialize in one product, they will have to trade with each other. As Exhibit 1-2A shows, it will take the five families 10 separate exchanges to obtain some of each of the products. If the families live near each

Exhibit 1-2

A. Ten exchanges are required when a central market is not used



B. Only five exchanges are required when a middleman (intermediary) in a central market is used



High-Tech Access to Market Information in the Low-Tech World

When consumers in the U.S. think about technology and marketing, many think about shopping on the Internet. After all, 135 million people in the U.S. have online access to the Internet. Fancy shopping malls seem old hat. Contrast that with Bangladesh, one of the poorest countries in the world, where about 90 percent of the 68,000 villages don't even have access to a phone. But Grameen Bank, a private firm based in Dhaka, Bangladesh, is doing something about that problem. It is making loans so that someone in a village can buy a cell phone and then provide phone service to others. For example, Delora Begum bought a phone and now reigns as the "phone lady" in her village. And her business is helping the market system work better. For example, farmers pay to use the

cell phone to learn the fair value of their rice and vegetables; often in the past they were exploited because they did not get a fair price. One local businessman routinely had to take a two-hour bus ride to order furnace oil for his brick factory. Now he can just call and place an order—and save a bone-jarring half day on a bus. Similarly, a local carpenter uses the cell phone to check the current price for wood so that he can make a profit when he prices the chairs and cabinets he makes. These are just a few examples, but in a country with an extremely ineffective macro-marketing system the Grameen Bank's cell phone venture is doing a lot to improve the quality of life of people in remote villages.⁹

other, the exchange process is relatively simple. But if they are far apart, travel back and forth will take time. Who will do the traveling—and when?

Faced with this problem, the families may agree to come to a central market and trade on a certain day. Then each family makes only one trip to the market to trade with all the others. This reduces the total number of trips to five, which makes exchange easier, leaves more time for producing and consuming, and also provides for social gatherings.

A money system simplifies trading

While a central meeting place simplifies exchange, the individual bartering transactions still take a lot of time. Bartering only works when someone else wants what you have, and vice versa. Each trader must find others who have products of about equal value. After trading with one group, a family may find itself with extra baskets, knives, and pots. Then it has to find others willing to trade for these products.

A common money system changes all this. Sellers only have to find buyers who want their products and agree on the price. Then sellers are free to spend this income to buy whatever they want. If some buyers and sellers use *different* money systems—some use dollars and others use yen—they must also agree on the rate at which the money will be exchanged.

Middlemen intermediaries may help exchange even more

The development of a central market and a money system simplifies the exchange process among the five families in our imaginary village. But the families still need to make 10 separate transactions. So it still takes a lot of time and effort for the five families to exchange goods.

This clumsy exchange process is made much simpler by a **middleman** (or **intermediary**)—someone who specializes in trade rather than production. A middleman is willing to buy each family's goods and then sell each family whatever it needs. The middleman intermediary charges for this service, of course. But this charge may be more than offset by savings in time and effort.

In our simple example, using an intermediary at a central market reduces the necessary number of exchanges for all five families from 10 to 5. See Exhibit 1-2B. Each family has more time for production, consumption, and leisure. Also, each family can specialize in producing what it produces best—creating more form and task utility. Meanwhile, by specializing in trade, the intermediary provides additional time, place, and possession utility. In total, all the villagers may enjoy greater economic utility—and greater consumer satisfaction—by using an intermediary in the central market.

Note that the reduction in transactions that results from using an intermediary in a central market becomes more important as the number of families increases.

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



For example, if the population of our imaginary village increases from 5 to 10 families, 45 transactions are needed without an intermediary. Using an intermediary requires only one transaction for each family.

Central market and intermediaries may develop in cyberspace

We've introduced the concept of a central market, the role of a money system for exchange, and the development of middlemen specialists by discussing a simple example in the context of a primitive society. But, you should realize that these same ideas are just as relevant in a modern society. Today, the intermediaries have permanent trading facilities and are known as *wholesalers* and *retailers*. In fact, the advantages of working with intermediaries multiply with increases in the number of producers and consumers, their distance from or difficulties in communicating with each other, and the number and variety of competing products. That is why there are so many wholesalers and retailers in modern economies.

On the other hand, technology is allowing some customers and some producers to meet for exchange in a central market that is located in "cyberspace"—that is, on the Internet—rather than in a mutually convenient geographic location. Computer systems developed by a new form of market specialist allow sellers and buyers to communicate and engage in exchange even if they are thousands of miles apart. In fact, the Internet makes it possible for sellers to hold auctions in which thousands of potential buyers from different parts of the world bid against each other to determine the price that will ultimately be paid for a good or service. Obviously, this is a very different type of central market, but it is important to see that it is simply a variation of the same basic idea. From a macro-marketing perspective, the main purpose of markets and market intermediaries is to make exchange easier and allow greater time for production, consumption, and other activities—including leisure.¹⁰

Internet

Internet Exercise eBay features a number of online auctions in which different sellers auction off computers, consumer electronics, and other products to buyers. Visit the eBay website (www.eBay.com) and review an open auction for a consumer electronics product. What are the advantages and disadvantages of this market for sellers? For buyers?

The Role of Marketing in Economic Development

Effective marketing system is necessary

Although it is tempting to conclude that more effective macro-marketing systems are the result of greater economic development, just the opposite is true. *An effective macro-marketing system is necessary for economic development.* Improved marketing is often the key to growth in less-developed nations.

Breaking the vicious circle of poverty

Without an effective macro-marketing system, many people in less-developed nations are not able to leave their subsistence way of life. They can't produce for the market because there are no buyers. And there are no buyers because everyone else is producing for their own needs. As a result, distribution systems and intermediaries do not develop.

Breaking this "vicious circle of poverty" may require major changes in the inefficient micro- and macro-marketing systems that are typical in less-developed nations. At the least, more market-oriented middlemen are needed to move surplus output to markets—including foreign markets—where there is more demand.¹¹

Less-developed nations have inefficient systems

In Chapter 5 we will go into more detail on how countries at different levels of economic development differ. However, to get a sense for differences in macro-marketing systems, let's consider a case that involves India. This case also illustrates the links between the macro-marketing systems of countries at different stages of development.

Two-thirds of the over one billion people in India still live in rural farm areas. Many don't have life's basic comforts. For example, three out of four use wood as fuel to cook. Only about 40 percent have electricity, and less than 20 percent have piped water. Most can't afford a refrigerator. A person who works in the sugarcane fields, for example, only earns about \$1 a day. Many rural Indians have never even held a tube of toothpaste. Rather, they clean their mouths with charcoal powder and the stem of a local plant.

Colgate is interested in introducing toothpaste in India, but it can't rely on U.S.-style ads—or the local drugstore—to do the selling job. Half of the rural population can't read, and very few have a TV. They also don't go to stores. Rather, once a week the men go to a central market in a nearby village to get basic supplies they can't grow themselves. To reach these people, Colgate sends a van that is equipped with a generator and video gear into a village on market day. Music attracts the shoppers, and then an entertaining half-hour video (infomercial) explains the benefits of using Colgate toothpaste. Of course, not many villagers can spend a day's wages to buy a standard tube. So Colgate offers a small (30 gram) tube for six rupees (about 18¢).

Colgate's micro-marketing effort in India is expensive because the macro-marketing system is ineffective. Colgate managers think that over the long run these efforts will pay off for the company. For now, they are paid for by Colgate's profits from more developed nations. So, you can see that it will take a long time before these villagers have basic comforts—or the type of efficient macro-marketing system—that those of us from the developed economies take for granted.¹²

Nations' Macro-Marketing Systems Are Connected

As a nation grows, its international trade grows

All countries trade to some extent—we live in an interdependent world. Trade expands as a country develops and industrializes. In fact, the largest changes in world trade are usually seen in rapidly developing economies. Over the last 20 years, for example, exports from China, India, and the "Four Dragons" (South Korea, Taiwan,

Hong Kong, and Singapore) have risen dramatically and have fueled domestic economic growth at record levels.

Even so, the largest traders are highly developed nations. For example, the top industrial nations—the U.S., Canada, the countries of Western Europe, and Japan—account for about half of the world's total economic output, with the U.S. at about 23 percent, the countries of Western Europe at about 20 percent, and Japan at about 7 percent. These countries also account for about two-thirds of total world exports and about 63 percent of world imports. These statistics help you see why the U.S., Japan, and the countries of Western Europe are seen as the three economic superpowers presumably destined to compete for mastery in international markets on into the 21st century.¹³

Because trade among nations is so important in economic development, most countries—whether highly developed or not—are eager to be able to sell their goods and services in foreign markets. Yet at the same time they often don't want their local customers to spend cash on foreign-made products. They want the money—and the opportunities for jobs and economic growth—to stay in the local economy.

Tariffs and quotas may reduce trade

Taxes and restrictions at national or regional borders greatly reduce the free flow of goods and services between the macro-marketing systems of different countries. **Tariffs**—taxes on imported products—vary, depending on whether a country is trying to raise revenue or limit trade. Restrictive tariffs often block all movement. But even revenue-producing tariffs increase prices, discourage free movement of products, and cause red tape. This is what Caterpillar encounters trying to sell its construction equipment in Brazil. Brazil's 15 percent tariff adds nearly \$40,000 to the cost of a \$250,000 machine. Worse, Brazilian customs delays make it difficult for Caterpillar to honor its sales promise to deliver repair parts within 24 hours.¹⁴

Quotas act like restrictive tariffs. **Quotas** set the specific quantities of products that can move into or out of a country. Great market opportunities may exist in the markets of a unified Europe, for example, but import quotas (or export controls applied against a specific country) may discourage outsiders from entering.

The impact of such restrictions can be seen in the Russian market. At first it appeared that with the fall of communism, the Russian market would be more open to foreign automobile producers. However, big Russian import tariffs and taxes resulted in very high prices. For example, in 1997 a Taurus that sold for about \$22,000 in the U.S. cost over \$48,000 in Russia. Thus, the resulting high price severely limited the number of Russians who were willing or able to pay that much for a car. To get around this problem, Ford, Daewoo, and other producers decided to set up assembly plants in Russia.¹⁵

Trade restrictions can be a potential source of conflict between nations. For example, the U.S. government is hammering China for more access to its insurance, food, and telecommunications markets; China, in turn, complains about U.S. import quotas and tariffs on textiles. China isn't the only country affected. U.S. tariffs on textiles run as high as 30 percent.

As this suggests, the U.S. has held fast to some protectionist policies even though it is the world's cheerleader for free trade. U.S. consumers pay more for Florida orange juice because orange juice concentrate from groves in Brazil and other countries gets hit with a 30 percent tariff. Similarly, the U.S. is a big exporter of services, but Japanese and European airlines are not allowed to land in a U.S. city, pick up paying passengers, and fly to another U.S. destination.¹⁶

Markets may rely on international countertrade

To overcome the problems of trade restrictions, many firms have turned to **countertrade**—a special type of bartering in which products from one country are traded for products from another country. For example, McDonnell Douglas Helicopter turned to countertrade when the Ugandan government wanted to buy 18 helicopters to help

stamp out illegal elephant hunting. Uganda didn't have \$25 million to pay for the helicopters, so a countertrade specialist for the helicopter company set up local projects to generate the money. One Ugandan factory now turns local pineapples and passion fruit into concentrated juice. The concentrate is sold to European buyers identified by the countertrade specialist. Similarly, soft-drink bottlers in Mexico trade locally grown broccoli for Pepsi concentrate; then Pepsi finds a market for the broccoli in the U.S.

Distribution systems and middlemen intermediaries have not yet developed in these countries to handle this sort of exchange. So, in pursuing their own opportunities, companies like Pepsi and McDonnell Douglas are stimulating economic development. While deals such as this may seem unusual, that is not the case. Countertrade is becoming an extremely important part of foreign trade for both large and small companies. In fact, experts say that the use of countertrade doubled in the last decade. Now, about 20 to 25 percent of all U.S. exports rely on countertrade.¹⁷

Global trade is increasing

There are still many obstacles to free trade among nations. And trade "wars" among nations are likely to continue. Even so, the trend shows a slow movement toward fewer restrictions on trade among different countries. Perhaps the most visible evidence of this trend is the creation in 1995 of the **World Trade Organization (WTO)**—the only international body dealing with the rules of trade between nations. At its heart are the WTO agreements, the legal ground rules for international commerce and for trade policy. The agreements have three main objectives: (1) to help trade flow as freely as possible, (2) to provide an impartial means of settling disputes, and (3) to facilitate further negotiation. The WTO agreements in general try to encourage competition, discourage protectionism, and seek to provide more predictable policies.

Because each trade rule affects different countries in different ways, reaching agreements is a slow and complicated process. Even with the WTO in place, some people feel that there is more talk than change. Yet, progress is slowly being made. The WTO agreements cover services and intellectual property as well as goods; prior agreements were limited to goods. Thus, with the formation of the WTO global trade is becoming an even more important factor in economic development—and a more important source of opportunity for individual firms.¹⁸

Internet

Internet Exercise The World Trade Organization is a very important force behind the global move toward free trade, but sometimes there are still disputes. Go to the WTO web site (www.wto.org) and find out how the WTO settles disputes. Do you think that this procedure favors the developed nations, the less-developed nations, or neither? Give your thinking.

Can Mass Production Satisfy a Society's Consumption Needs?

Urbanization brings together large numbers of people. They must depend on others to produce most of the goods and services they need to satisfy their basic needs. Also, in advanced economies, many consumers have higher discretionary incomes. They can afford to satisfy higher-level needs as well as basic ones. A modern economy faces a real challenge to satisfy all these needs.

Economies of scale mean lower cost

Fortunately, advanced economies can often take advantage of mass production with its **economies of scale**—which means that as a company produces larger numbers of a particular product, the cost for each of these products goes down. You can see

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



that a one-of-a-kind, custom-built car would cost much more than a mass-produced standard model.

Of course, even in advanced societies, not all goods and services can be produced by mass production or with economies of scale. Consider medical care. It's difficult to get productivity gains in labor-intensive medical services—like brain surgery. Nevertheless, from a macro-marketing perspective, it is clear that we are able to devote resources to meeting these “quality-of-life” needs because we are achieving efficiency in other areas.

Thus, modern production skills can help provide great quantities of goods and services to satisfy large numbers of consumers. But mass production alone does not solve the problem of satisfying consumers' needs. We also need effective marketing.

Effective marketing is needed to link producers and consumers

Effective marketing means delivering the goods and services that consumers want and need. It means getting products to them at the right time, in the right place, and at a price they're willing to pay. It means keeping consumers satisfied after the sale, and bringing them back to purchase again when they are ready. That's not an easy job—especially if you think about the variety of goods and services a highly developed economy can produce and the many kinds of goods and services consumers want.

Effective marketing in an advanced economy is more difficult because producers and consumers are often separated in several ways. As Exhibit 1-3 shows, exchange between producers and consumers is hampered by spatial separation, separation in time, separation of information and values, and separation of ownership. “Discrepancies of quantity” and “discrepancies of assortment” further complicate exchange between producers and consumers. That is, each producer specializes in producing and selling large amounts of a narrow assortment of goods and services, but each consumer wants only small quantities of a wide assortment of goods and services.¹⁹

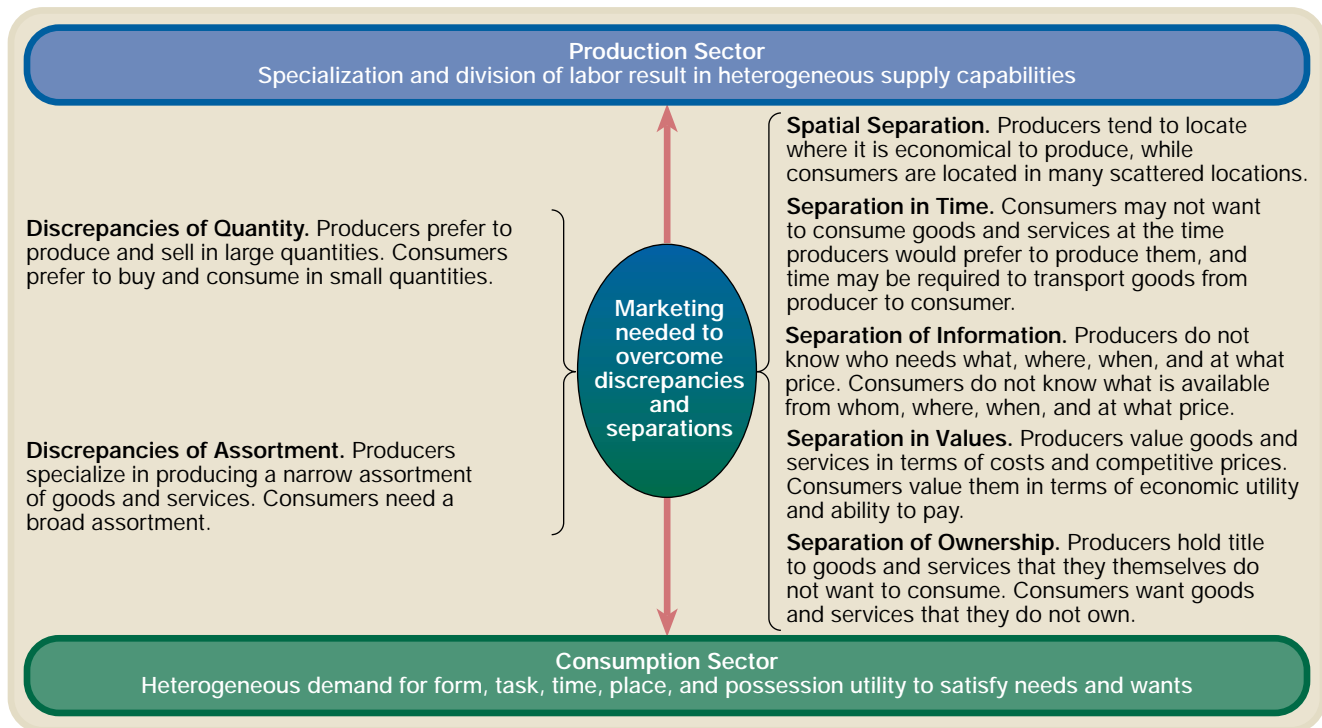
Marketing functions help narrow the gap

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

The **universal functions of marketing** are: buying, selling, transporting, storing, standardization and grading, financing, risk taking, and market information. They must be performed in all macro-marketing systems. *How* these functions are performed—and *by whom*—may differ among nations and economic systems. But they are needed in any macro-marketing system. Let's take a closer look at them now.

Exchange usually involves buying and selling. The **buying function** means looking for and evaluating goods and services. The **selling function** involves promoting the product. It includes the use of personal selling, advertising, and other direct and mass-selling methods. This is probably the most visible function of marketing.

Exhibit 1-3 Marketing Facilitates Production and Consumption



The **transporting function** means the movement of goods from one place to another. The **storing function** involves holding goods until customers need them.

Standardization and grading involve sorting products according to size and quality. This makes buying and selling easier because it reduces the need for inspection and sampling. **Financing** provides the necessary cash and credit to produce, transport, store, promote, sell, and buy products. **Risk taking** involves bearing the uncertainties that are part of the marketing process. A firm can never be sure that customers will want to buy its products. Products can also be damaged, stolen, or outdated. The **market information function** involves the collection, analysis, and distribution of all the information needed to plan, carry out, and control marketing activities, whether in the firm's own neighborhood or in a market overseas.

Who Performs Marketing Functions?

Producers, consumers, and marketing specialists

From a macro-level viewpoint, these marketing functions are all part of the marketing process and must be done by someone. None of them can be eliminated. In a planned economy, some of the functions may be performed by government agencies. Others may be left to individual producers and consumers. In a market-directed system, marketing functions are performed by producers, consumers, and a variety of marketing specialists (see Exhibit 1-4). Regardless of who performs the marketing functions, in general they must be performed effectively or the performance of the whole macro-marketing system will suffer.

Keep in mind that the macro-marketing systems for different nations may interact. For example, producers based in one nation may serve consumers in another country, perhaps with help from intermediaries and other specialists from both countries. What happened to food distribution in East Germany after the fall of the

Facilitators—including the delivery firms that handle perishable cargo at Baltimore/Washington International Airport and Internet service providers like Global Crossing—may help a marketing manager with one or more of the marketing functions.

Whatever your perishable, BWI has your number.

Most every perishable has its own ideal storage temperature and at Baltimore/Washington International Airport (BWI), we've got you.

With our advanced on-site cold storage facility and refrigerated distribution, come what may, your perishable goods will not perish! We also know that with these critical shipments time is money. So look on board to off-board. BWI offers one of the quickest turnarounds in the industry. You don't just fly to BWI, you fly through it!

When you consider our highway, port and rail connections, there's every good reason to ship BWI. To discover more about what makes BWI such a cool place for cargo, call Deborah Weisman, Manager of Cargo Development (+1) 410 859-7030 Fax (+1) 410 859-3960

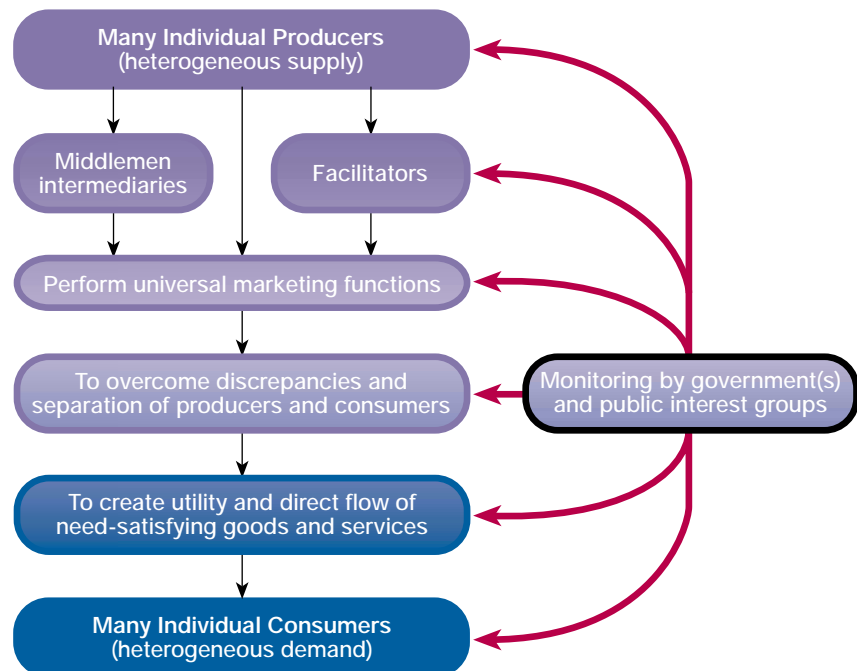
SHIP BWI
Baltimore/Washington International Airport

We don't just move information. We move information that moves the world's markets.

Global Crossing
The ability to reach the world. The capacity to change it.

Berlin Wall illustrates this point. With the reunification of Germany, the political limits on trade were gone. Yet consumers still faced problems getting the food they wanted. Eastern Germany had no efficient wholesalers to supply the chain of 170 Konsum retail stores, which were previously state-owned. And it was expensive for producers in the West who wanted to reach the market in the East to do it without help. However, the Tegut grocery chain in the West saw the opportunity and quickly did something about it. Tegut established an automated warehouse in the East to supply the Konsum stores. The warehouse made it economical to assemble needed assortments of products from many different producers. Further, Tegut set up a computer network to provide timely reordering from the warehouse, online

Exhibit 1-4
Model of a Market-Directed Macro-Marketing System



management of inventories and distribution, and even payment control. With the help of middlemen like Tegut, both local and foreign producers are better able to meet consumer needs.²⁰

Specialists perform some functions

Earlier in the chapter you saw how producers and consumers can benefit when a middleman takes over some buying and selling. The Tegut example shows that producers and consumers also benefit when marketing specialists perform the other marketing functions. In fact, we find marketing functions being performed not only by middlemen but also by a variety of other **facilitators**—firms that provide one or more of the marketing functions other than buying or selling. These include advertising agencies, marketing research firms, independent product-testing laboratories, Internet service providers, public warehouses, transporting firms, communications companies, and financial institutions (including banks). Through specialization or economies of scale, marketing intermediaries and facilitators are often able to perform the marketing functions better—and at a lower cost—than producers or consumers can. This allows producers and consumers to spend more time on production and consumption.

Functions can be shifted and shared

From a macro viewpoint, all of the marketing functions must be performed by someone. But *from a micro viewpoint, not every firm must perform all of the functions. Further, not all goods and services require all the functions at every level of their production.* “Pure services”—like a plane ride—don’t need storing, for example. But storing is required in the production of the plane and while the plane is not in service.

Some marketing specialists perform all the functions. Others specialize in only one or two. Marketing research firms, for example, specialize only in the market information function. Further, technology may make a certain function easier to perform. For example, the buying process may require that a customer first identify relevant sellers and where they are. Even though that might be accomplished quickly and easily on the Internet, the function hasn’t been cut out. The important point to remember is this: *Responsibility for performing the marketing functions can be shifted and shared in a variety of ways, but no function can be completely eliminated.*

How Well Does Our Macro-Marketing System Work?

It connects remote producers and consumers

A macro-marketing system does more than just deliver goods and services to consumers—it allows mass production with its economies of scale. Also, mass communication, computer information systems, including the Internet, and mass transportation allow products to be shipped where they’re needed. Oranges from California are found in Minnesota stores—even in December—and electronic parts made in Taiwan are used in making products all over the world.²¹

It encourages growth and new ideas

In addition to making mass production possible, a market-directed, macro-marketing system encourages **innovation**—the development and spread of new ideas and products. Competition for consumers’ money forces firms to think of new and better ways of satisfying consumer needs. And the competition that marketing fosters drives down prices and gives consumers more choices and a higher standard of living.

Macro-marketing system is becoming more efficient

In combination, the forces of competition and the choices made by customers to support those firms that do the best job of meeting their needs drive our macro-marketing system to be more efficient.

Some changes come quickly. A good example is the speed with which firms have adopted e-commerce. **E-commerce** refers to exchanges between individuals or

A market-directed, macro-marketing system encourages marketing managers to develop innovative ways to meet customers' needs.



organizations—and activities that facilitate those exchanges—based on applications of information technology. The technology-mediated exchanges fostered by e-commerce are helping to cut costs from almost every aspect of marketing while at the same time helping firms to better satisfy their customers. Collectively, these developments have had a significant impact on the efficiency of our macro-marketing system. For example, most experts believe that the growth of the U.S. economy during the last decade, coupled with low levels of price increases (inflation), is due to the fact that e-commerce has helped sellers reduce costs.

Throughout this text we will detail the many ways in which e-commerce is increasing the efficiency and effectiveness of different areas of marketing. On the other hand, keep in mind that the upward trend in the macro-marketing system does not ensure a successful outcome for any individual firm or its customers. The headlines of the past few years provide ample evidence of this. Many individual dot-com firms—companies established to do business over the Internet—failed. These companies were started by people who thought they had come up with “a better mousetrap,” but customers didn’t always see it that way. These failures are expensive, and ultimately that expense is shared by members of the society. That’s because money spent on a business that fails—that does not make a positive contribution to the macro-marketing system—could have had a positive effect if it was spent more wisely in some other way. So, it is important to see that if individual managers make poor decisions it may affect many people. Throughout this text we will be focusing on how managers can make better decisions—to improve both micro-marketing performance and the performance of the whole macro-marketing system.

Marketing has its critics

In explaining marketing’s role in society, we described some of the benefits of a market-directed macro-marketing system. We can see this in the macro-marketing system of the United States. It provides—at least in material terms—one of the highest standards of living in the world. It seems to be “effective” and “fair” in many ways.

We must admit, however, that marketing—as it exists in the United States and other developed societies—has many critics. Marketing activity is especially open to criticism because it is the part of business most visible to the public. There is nothing like a pocketbook issue for getting consumers excited!

Marketing has its critics, including those who express concern that advertising is too pervasive in all aspects of our lives.



A number of typical complaints about marketing are summarized in Exhibit 1-5. Think about these criticisms and whether you agree with them or not. What complaints do you have that are not covered by one of the categories in Exhibit 1-5?

Such complaints cannot and should not be taken lightly. They show that many people aren't happy with some parts of the marketing system. Certainly, the strong public support for consumer protection laws proves that not all consumers feel they are being treated like royalty.

As you consider the various criticisms of marketing, keep in mind that some of them deal with the marketing practices of specific firms and are micro-marketing oriented. Others are really criticisms of the whole macro-marketing system. This is an important distinction.²²

Is it an ethical issue?

Certainly some complaints about marketing arise because some individual firm or manager was intentionally unethical and cheated the market. But at other times, problems and criticism may arise because a manager did not fully consider the ethical implications of a decision. In either case, there is no excuse for sloppiness when it comes to **marketing ethics**—the moral standards that guide marketing decisions and actions. Each individual develops moral standards based on his or her own values. That helps explain why opinions about what is right or wrong often vary from one person to another, from one society to another, and among different groups

Exhibit 1-5 Sample Criticisms of Marketing

- Advertising is everywhere, and it's often annoying, misleading, or wasteful.
- The quality of products is poor and often they are not even safe.
- There are too many unnecessary products.
- Packaging and labeling are often confusing and deceptive.
- Middlemen add too much to the cost of distribution and just raise prices without providing anything in return.
- Marketing serves the rich and exploits the poor.
- Service stinks, and when a consumer has a problem nobody cares.
- Marketing creates interest in products that pollute the environment.
- Private information about consumers is collected and used to sell them things they don't want.
- Marketing makes people too materialistic and motivates them toward "things" instead of social needs.
- Easy consumer credit makes people buy things they don't need and can't afford.

within a society. It is sometimes difficult to say whose opinions are “correct.” Even so, such opinions may have a very real influence on whether an individual’s (or a firm’s) marketing decisions and actions are accepted or rejected. So marketing ethics are not only a philosophical issue, they are also a pragmatic concern. Throughout the text we will be discussing the types of ethical issues individual marketing managers face. But we won’t be moralizing and trying to tell you how you should think on any given issue. Rather, by the end of the course we hope that *you* will have some firm personal opinions about what is and is not ethical in micro-marketing activities.²³

Keep in mind, however, that not all criticisms of marketing focus on ethical issues; fortunately, the prevailing practice of most businesspeople is to be fair and honest. Moreover, not all criticisms are specific to the micro-marketing activities of individual firms. Some of the complaints about marketing really focus on the basic idea of a market-directed macro-marketing system—and these criticisms often occur because people don’t understand what marketing is—or how it works. As you go through this book, we’ll discuss some of these criticisms. Then in our final chapter, we will return to a more complete appraisal of marketing in our consumer-oriented society.

Conclusion

In this chapter, we defined two levels of marketing: micro-marketing and macro-marketing. Macro-marketing is concerned with the way the whole global economy works. Micro-marketing focuses on the activities of individual firms. We discussed the role of marketing in economic development and the functions of marketing and who performs them. We ended by raising some of the criticisms of marketing—both of the whole macro system and of the way individual firms work.

We emphasized macro-marketing in this chapter, but the major thrust of this book is on micro-marketing. By learning more about market-oriented decision making, you will be able to make more efficient and socially responsible decisions. This will help improve the per-

formance of individual firms and organizations (your employers). And eventually, it will help our macro-marketing system work better.

We’ll see marketing through the eyes of the marketing manager—maybe *you* in the near future. And we will show how you can contribute to the marketing process. Along the way, we’ll discuss the impact of micro-level decisions on society, and the ethical issues that marketing managers face. Then in Chapter 22—after you have had time to understand how and why producers and consumers think and behave the way they do—we will evaluate how well both micro-marketing and macro-marketing perform in a market-directed economic system.

Questions and Problems

1. List your activities for the first two hours after you woke up this morning. Briefly indicate how marketing affected your activities.
2. It is fairly easy to see why people do not beat a path to a mousetrap manufacturer’s door, but would they be similarly indifferent if some food processor developed a revolutionary new food product that would provide all necessary nutrients in small pills for about \$100 per year per person?
3. If a producer creates a really revolutionary new product and consumers can learn about it and purchase it at a website on the Internet, is any additional marketing effort really necessary? Explain your thinking.
4. Distinguish between macro- and micro-marketing. Then explain how they are interrelated, if they are.
5. Distinguish between how economic decisions are made in a planned economic system and how they are made in a market-directed economy.
6. A committee of the American Marketing Association defined marketing as “the process of planning

- and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational objectives.” Does this definition consider macro-marketing? Explain your answer.
7. Identify a “central market” in your city and explain how it facilitates exchange.
 8. Identify a website on the Internet that serves as a “central market” for some type(s) of good(s) or service(s). Give the address (www.____.____) of the website and briefly explain the logic of your choice.
 9. Explain why tariffs and quotas affect international marketing opportunities.
 10. Discuss the nature of marketing in a socialist economy. Would the functions that must be provided and the development of wholesaling and retailing systems be any different than in a market-directed economy?
 11. Discuss how the micro-macro dilemma relates to each of the following products: high-powered engines in cars, nuclear power, bank credit cards, and pesticides that improve farm production.
 12. Describe a recent purchase you made. Indicate why that particular product was available at a store and, in particular, at the store where you bought it.
 13. Refer to Exhibit 1-3, and give an example of a purchase you made recently that involved separation of information and separation in time between you and the producer. Briefly explain how these separations were overcome.
 14. Online computer shopping at websites on the Internet makes it possible for individual consumers to get direct information from hundreds of companies they would not otherwise know about. Consumers can place an order for a purchase that is then shipped to them directly. Will growth of these services ultimately eliminate the need for retailers and wholesalers? Explain your thinking, giving specific attention to what marketing functions are involved in these “electronic purchases” and who performs them.
 15. Define the functions of marketing in your own words. Using an example, explain how they can be shifted and shared.
 16. Explain, in your own words, why this text emphasizes micro-marketing.
 17. Explain why a small producer might want a marketing research firm to take over some of its information-gathering activities.
 18. Explain why a market-directed macro-marketing system encourages innovation. Give an example.

Suggested Cases

1. McDonald’s “Seniors” Restaurant
4. Bidwell Carpet Cleaning, Inc.

Computer-Aided Problems

1. Revenue, Cost, and Profit Relationships

This problem introduces you to the computer-aided problem (CAP) software—which is on the CD that accompanies this text—and gets you started with the use of spreadsheet analysis for marketing decision making. This problem is simple. In fact, you could work it without the software. But by starting with a simple problem, you will learn how to use the program more quickly and see how it will help you with more complicated problems. Instructions for the software are available at the end of this text.

Sue Cline, the business manager at Magna University Student Bookstore, is developing plans for the next academic year. The bookstore is one of the university's nonprofit activities, but any "surplus" (profit) it earns is used to support the student activities center.

Two popular products at the bookstore are the student academic calendar and notebooks with the school name. Sue Cline thinks that she can sell calendars to 90 percent of Magna's 3,000 students, so she has had 2,700 printed. The total cost, including artwork and printing, is \$11,500. Last year the calendar sold for \$5.00, but Sue is considering changing the price this year.

Sue thinks that the bookstore will be able to sell 6,000 notebooks if they are priced right. But she knows that many students will buy similar notebooks (without the school name) from stores in town if the bookstore price is too high.

Sue has entered the information about selling price, quantity, and costs for calendars and notebooks in the spreadsheet program so that it is easy to evaluate the effect of different decisions. The spreadsheet is also set up to calculate revenue and profit, based on

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

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

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

- From the Spreadsheet Screen, how much revenue does Sue expect from calendars? How much revenue from notebooks? How much profit will the store earn from calendars? From notebooks?*
- If Sue increases the price of her calendars to \$6.00 and still sells the same quantity, what is the expected revenue? The expected profit? (Note: Change the price from \$5.00 to \$6.00 on the spreadsheet and the program will recompute revenue and profit.) On your sheet of paper, show the calculations that confirm that the program has given you the correct values.*
- Sue is interested in getting an overview of how a change in the price of notebooks would affect revenue and profit, assuming that she sells all 6,000 notebooks she is thinking of ordering. Prepare a table—on your sheet of paper—with column headings for three variables: selling price, revenue, and profit. Show the value for revenue and profit for different possible selling prices for a notebook—starting at a minimum price of \$1.60 and adding 8 cents to the price until you reach a maximum of \$2.40. At what price will selling 6,000 notebooks contribute \$5,400.00 to profit? At what price would notebook sales contribute only \$1,080.00? (Hint: Use the What If analysis feature to compute the new values. Start by selecting "selling price" for notebooks as the value to change, with a minimum value of \$1.60 and a maximum value of \$2.40. Select the revenue and profit for notebooks as the values to display.)*

For additional questions related to this problem, see Exercise 1-4 in the *Learning Aid for Use with Basic Marketing*, 14th edition.