

SOLUTIONS MANUAL



Marketing

Michael Levina



Defined



Explained



Applied

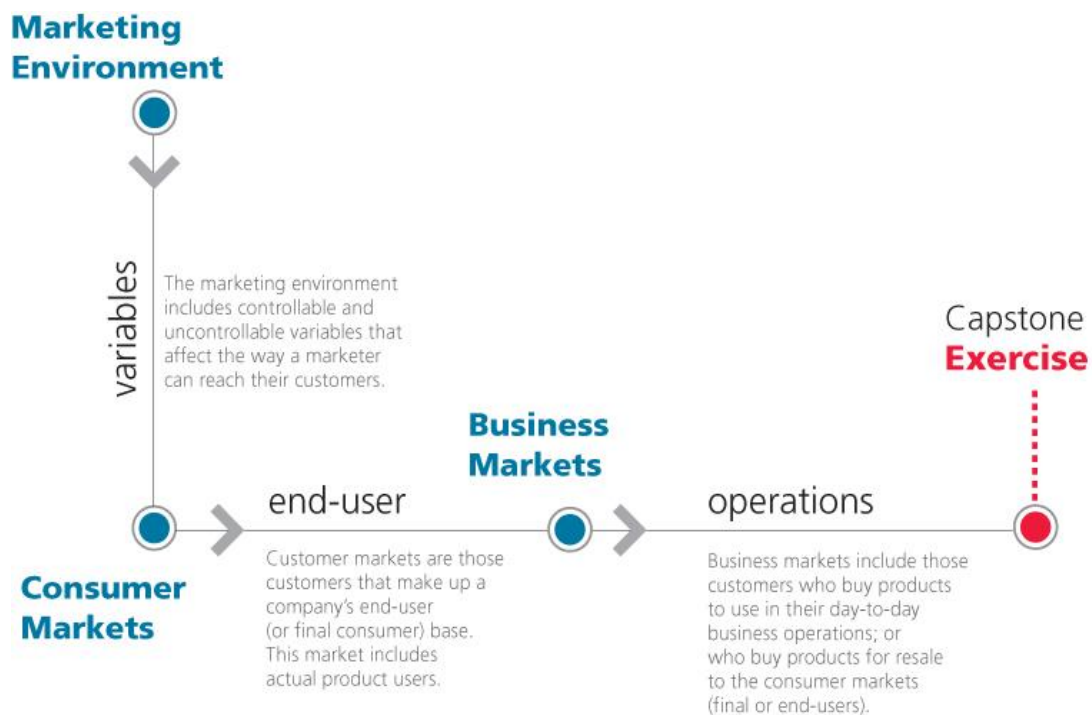
Part 1: Explaining

Chapter 2: THE MARKET IN MARKETING

CHAPTER OVERVIEW

- Introduces students to the concept of the marketing environment.
- Helps students understand the elements of both the consumer and business markets.

VISUAL SUMMARY



TEACHING TIPS

- This is a good opportunity to identify elements of the local environment or the local environment of the student's home town. Encourage students to share examples they are familiar with.
- Use examples on whiteboard or overhead to differentiate between controllable and uncontrollable factors and the difference between "controlling" and "responding to"

- It is important for students to understand the magnitude of the B2B market – most students are not aware of its potential.

EXAMPLES TO CONSIDER

(Please know that the links below were live when this Instructor's Manual was developed. We, of course, cannot promise that they still are. Please check before trying to connect in class.)

- M&M's for Business

<http://www.mymms.com/business/>

Check out this website for a look at M&M's B2B promotion for personalized candy and packaging.

- Lands' End

http://ocs.landsend.com/cd/frontdoor?store_name=corpsales&store_type=1

<http://www.landsend.com/>

Visit each of these site—the first is B2B and the second is B2C. Point out the differences in approach between the two.

- ECKÖ

<http://www.shopecko.com/home/index.jsp>

Encourage students to visit the ECKÖ site and discuss the consumer market these brands are appealing to. Is the brand unique? What does this brand promise the consumer?

SUGGESTED CLASSROOM ACTIVITIES

- **The Macro-environment**

Divide the class into six small groups and assign a multi-national company like Ford. Assign each group one of the six sub-environments: economic, social and cultural, competitive, legal, political, and technological. Have each group discuss and share how their assigned sub-environment impacts Ford.

- **Business Markets**

Divide the class into three groups. One group will represent new tasks, the second group will represent modified rebuys, and the third group will represent straight rebuys. Using your university as an example, have each group identify the types of purchases they would represent and describe the purchasing process that would be appropriate.

- **Think-Pair-Share**

Have your students divide into pairs. Ask them to decide what is the most significant trend in the consumer market in the United States today and how does this trend impact marketing activities. Each pair should share their ideas with the class.

MEDIA

PowerPoint

Use PowerPoint materials provided to support lecture material.

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Video Links

These links to commercials – probably familiar—can be used to discuss various aspects of the marketing environment.

- Shoe Circus with Jerry Seinfeld & Bill Gates

<http://www.youtube.com/watch?v=rljNJZpRtj8>

These Microsoft TV commercials reflect aspects of the cultural environment. Discuss the different aspects addressed: language, loyalty programs, computer software, and celebrity recognition.

- Clean & Clear with Tiffany Diaz

<http://www.youtube.com/watch?v=EPHcaRUISVg>

This commercial is directed at the Hispanic market within the broader US market.

- State Farm Insurance

<http://www.youtube.com/watch?v=eSbhap4R-ho&feature=Playlist&p=D03D11D070708622&index=38>

This TV commercial, taking place in a parking garage, appeals to a specific social and cultural environment. How is the message unique? Is that message clear?

Article Links

Each of these articles focuses on a separate set of differences found in social influences on decision making.

- Green Gets Real

<http://www.csrwire.com/News/14765.html>

This summary article from the 2008 GfK Roper Green Gauge report discusses the economic and environment issues attached to the “greening” of America.

- The New Language of Marketing

http://www.webreference.com/promotion/vessels_marketing20/

Addresses the new cultural environment of “virtual communities” created by online social networking. These virtual communities are now part of our culture and have a place in marketing strategy.

- Responding to Tough Economic Times

<http://www.earlytorise.com/2008/07/08/5-ways-to-grow-very-rich-in-tough-economic-times.html>

Discusses very specific ways to respond to a weakened economic environment and is a good reference article.

CHAPTER OUTLINE...OBJECTIVES...and KEY TERMS

MARKETING ENVIRONMENT *(pp. 13-16)*

Objective 1: What are the components of the marketing environment? How do those elements affect marketing strategy?

Microenvironment
Macroenvironment

Defined:

The **marketing environment** is a set of forces, some controllable and some uncontrollable, that influence the ability of a business to create value and attract and serve customers.

Explained:

Many factors influence value creation and the nature of customer relationship, including both factors that are internal to the business and those that are external to the business.

Applied:

The forces that influence a company's ability to serve its customers that are outside the internal environment are divided into two categories: the micro-environment (those forces over which the company has some control) and the macro-environment (those societal forces that are essentially uncontrollable). The macro-environment has several sub-environments: economic, social and cultural, competitive, legal, political, and technological. Marketers must consider these sub-environments when planning their marketing strategy.

KEY TERMS CHECKLIST

Be sure to include this objective's key terms in your lecture and class discussion.

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- Internal environment**
All activities that occur within the organizational functions in a business.
- Internal marketing**
Implementation of marketing practices within an organization to communicate organizational policies and practices to employees and internal stakeholders.

- External environment**
All activities that occur outside the organizational functions of a business.
- External marketing**
Implementation of marketing practices directed outside the business to create value and to form productive customer relationships.

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- Microenvironment**
Forces close to a company, yet outside its internal environment, that influence the ability of a business to serve its customers.
- Macroenvironment**
Societal forces that are essentially uncontrollable and influence the microenvironment of a business.

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- Economic environment**
Factors that influence consumer purchase ability and buying behavior.
- Inflation**
An increase in the price of a collection of goods that represent the overall economy.
- Income levels**
Average consumer earnings used to approximate national earnings.
- Unemployment levels**
The number of unemployed persons divided by the aggregate labor force.
- Social and cultural environment**
Factors that relate marketing to the needs and wants of society and culture.
- Demographics**
Characteristics of human population used to identify markets.
- Competitive environment**
Factors that relate to the nature, quantity, and potential actions of competitors.

- Legal environment**
Factors that provide rules, and penalties for violations, designed to protect society and consumers from unfair business practices and to protect businesses from unfair competitive practices.

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- Political environment**
Factors that select national leadership, create laws, and provide a process for discourse on a wide range of issues.
- Technological environment**
Factors that influence marketing, based on scientific actions and innovation.

CONSUMER MARKETS (pp. 16-17)

Objective 2: What are consumer markets?

Defined:

Consumer markets are the end-users of the product or service and include individuals and households that are potential or actual buyers of products and services.

Explained:

Both micro-environments and macro-environments influence the decisions that consumers make through factors such as supply and demand. Ultimately, marketing is the link between production and consumption in the consumer market.

Applied:

Purchase decisions for consumers are heavily influenced through the marketing of brands.

KEY TERMS CHECKLIST

Be sure to include this objective's key terms in your lecture and class discussion.:

p. 16

- Consumer products**
Products that directly fulfill the desires of consumers and are not intended to assist in the manufacture of other products.

- Consumer's surplus**
When a consumer purchases a product or service at a price less than the utility of the product or service.

BUSINESS MARKETS (pp. 17-18)

Objective 3: How are business markets similar to consumer markets? How are they different?

Defined:

Business markets include individuals and organizations that are potential or actual buyers of goods and services that are used in, or in support of, the production of other products or services that are supplied to others.

Explained:

In the business market, goods and services are used to create other goods and services and are also consumed by the business as part of its normal operations. Business-to-business (also referred to as B2B) involves the sales of goods and services from one business to another business.

Applied:

Business purchases can typically be divided into three simple categories: new tasks, modified re-buy and straight re-buy. These categories are dependent upon the type of buying situation. Successful marketing in the business market will require understanding of the company's needs; the buying process for the company; and, the establishment of strong relationships with the "buyers" for the company.

KEY TERMS CHECKLIST

Be sure to include this objective's key terms in your lecture and class discussion.:

p. 17

- North American Industrial Classification System (NAICS)**
Classifications of businesses operating in the United States, Canada, and Mexico into groups based on their activities.
- Business-to-business (B2B)**
The sales of products and services from one business to another.
- Buyclasses**
The major classifications of business buying situations.

CAPSTONE EXERCISE (*appears in text at end of chapter*)

This chapter's exercise is an important one that allows you to assess the structure of any industry. The methodology was developed by Michael Porter, and is called Five Forces. Porter's Five Forces include the following:

- Bargaining power of suppliers
- Bargaining power of buyers
- Threat of new entrants
- Threat of substitutes
- Rivalry among competitors

If viewed as whole, the five forces give you a way to understand the business models of industries. How competitive is the industry? What does it take to succeed? How easy is it to get into the business? How do they make money? Taken together, these answers give you a way to understand the likelihood of success and the potential for profit in this industry. It is important to understand the key factors to be successful. Those key factors also help determine whether or not a certain industry could be successful. To fully understand this process, choose an industry and then do the research to produce a one-page version of Porter's Five Forces.

Answers will definitely vary depending on the industry chosen. Key will be that students demonstrate an understanding of and ability to apply the concepts of Porter's Five Forces.

APPLICATION EXERCISES (*appear in text at end of chapter*)

Please complete the following exercises.

1. Define the marketing environment for Starbucks (www.starbucks.com). Keep in mind that a company's marketing environment consists of the actors and forces outside marketing that affect marketing management's ability to build and maintain successful relationships with target customers.

Answers will vary. The marketing environment for Starbucks is primarily a consumer market based on the social and cultural sub-environment. Coffee drinking in the U.S. is somewhere between a hobby and an obsession. City-dwellers are the main target especially in business areas. Place is very important to the Starbucks strategy.

2. What are the fundamental differences between consumer markets and business markets?

Answers will vary. Consumer markets are populated mostly by end-users. Business markets are intermediaries or people responsible for making purchasing decisions for others. The business market purchasing process is more standardized and the volume is much greater.

3. By 2050, Hispanics will constitute an estimated 24% of the U.S. population. How will this impact the manner in which some products are marketed?

Answers will vary. Look for inclusion of ethnicity of the persons in the ads, language, types of products, and media utilized.

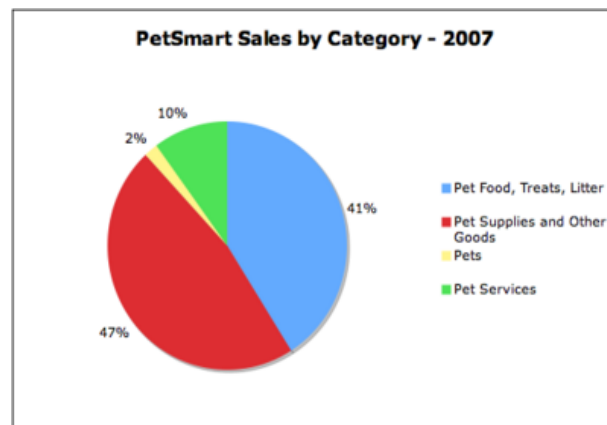
4. Describe the differences in products that appeal to the middle class, working class, and upper class.

Answers will vary. Today “class” is typically determined by occupation and education level. Working class members are more interested in “basics” and perhaps diversions from what they perceive as a mundane life. Price is very important to the working class. Middle class customers are perhaps interested in longer-term products – value over cost. Self esteem may play a role in the product appeal. Upper class customers are probably drawn by “self-actualization” products like travel, the arts, luxury items – they have far more wants than needs.

CASE STUDY

PetSmart Inc. is the largest pet store retailer in North America operating a total of 1,112 retail stores at the end of 2008. PetSmart grew at a compound annual growth rate (CAGR) of 11.1% between 2003 and 2008. Between March 2003 and March 2009 PetSmart opened 469 stores.

PetSmart’s divides its business into four segments: pet food, treats, and litter; pet supplies; pets; and, pet services, as shown on the following chart.



PetSmart's strategy includes a broad selection of products (over 10,000 distinct items) representing both national and store brands. PetSmart has been growing its services segment which gives the company a competitive advantage as well as a larger margin than on products. It also differentiates with the inclusion of full-service veterinary services—Banfield, The Pet Hospital-- in nearly 70% of the retail stores through a partnership with Medical Management International.

PetSmart competes with major discount retailers like Wal-Mart and Target but differentiates through a much wider range of products. PetSmart competes directly with privately-owned Petco who operates more than 900 stores in the United States. Reported sales for PetSmart in 2008 were about \$5 billion. Forbe's estimated sales for Petco for 2008 were \$2.4 billion.

Pet services continue to be PetSmart's growth segment. These services include veterinary-services, the PetsHotels (for in-store boarding), Doggie Day Camp, grooming and bathing, and training services. In addition, PetSmart operates in-store adoption centers through which, to date, its stores have placed over 3 million pets.

Although the U.S. fell into recession in late 2007, PetSmart was able to grow 8.4% in net sales in 2008.

Level 1/Qualitative Questions

1. What do you think has helped PetSmart's business grow in spite of a weak economy?

Answers will vary. It seems obvious that pets are important regardless of financial struggles. The consumer perceives the care of pets as a need rather than a want.

2. How are expanding services important to PetSmart's overall business success?

Answers will vary. If services are the "pull" to get customers into the store, then while the pets are being "serviced" the owners will probably shop the 10,000+ products on display. Services also provide a larger margin which is good for the company's bottom line.

3. What does PetSmart's success tell you about the social/cultural environment in which it operates?

Answers will vary. In North America, pets are part of the family. Our culture recognizes the importance of our pets. Caring for our pets and purchasing supplies and treats is as routine as purchasing groceries.

Level 2/Quantitative Questions

1. During the past two years, PetSmart's services segment grew from \$300 million per year to \$525 million per year. Today, the services segment represents approximately 10% of total revenues.

PetSmart is focusing on growing its services segment. If the services segment continues to grow at the same rate in the next two years as it did in the past two years, and if total sales remain "flat", what percent of total sales will be from the services segment by the end of the 2nd year going forward?

*Sales grew from \$300m to \$525m or + \$225m. \$225m is 75% of \$300m.
\$525m X 1.75 = \$919m
\$919million ÷ \$5.065billion = 18%*

2. If the services segment does grow as indicated in #1, do you think there is justification for a projection of overall sales to grow beyond the \$5.1 billion level? Why or why not?

Answers may vary. While pet owners are having services performed, they are probably also shopping. It would be a valid assumption that if services grow at the pace indicated, retail sales in food, treats & litter and supplies would also increase.