

2-1

The Impact of Marketing

GOALS

- Explain how marketing affects businesses.
- Describe marketing's impact on individuals.
- Discuss ways marketing benefits society.

KEY TERMS

international trade, p. 40

marketing matters

There are a number of factors that go into making a purchasing decision. "Is the price right?" "Is the product what I need?" "Will the product perform as expected?" "Is there a guarantee or warranty in case it is defective?" People ask themselves these and many other questions when making most purchasing decisions.

Work with a group. Have each person in the group name a product he or she has purchased recently. Then list all the important questions that went into making the purchasing decision. Do the questions differ from product to product? Are there certain questions that were the same or similar for all or most of the products? What did the manufacturers and retailers do to help you answer these questions? Summarize your results and share them with the other groups.

Marketing Affects Businesses

Marketing helps businesses find customers and sell their products and services profitably. Many people question the value of marketing. Some people believe it adds to the cost of products. Others believe it encourages people to buy things they really do not want or need. Still others suggest that if businesses produce quality products and services, there is no need for marketing.

It is important to determine if marketing plays a positive or a negative role. What does marketing contribute to businesses, individuals, and society? If there are problems with marketing, what can be done to eliminate them?

Critical Business Function

Marketing is an important business function. Even though businesses have not

always understood marketing and used it effectively, they could not have existed without it. Marketing is responsible for the activities leading to the exchange of a business's products and services for the customer's money. Distribution, financing, promotion, and the other marketing functions are needed to make the exchange possible.

Businesses that use the marketing concept benefit even more from marketing. In those businesses, marketing is used to identify and understand customers. Through the use of market research and marketing information systems, the business is able to determine customer needs, attitudes, likes, and dislikes. Then the business can carefully develop products and services that meet the needs of the customers and earn a profit.

Customer Satisfaction

Marketing helps a business satisfy customer wants and needs. Manufacturers developing a new brand of laundry detergent will make better decisions if they are aware of what consumers like and dislike about the current brand. Marketing also helps the business make better decisions about what to sell and how to sell it. The manager of a clothing store will want to know what consumers are expecting in

terms of styles and prices before purchasing new items to sell. When customers' wants and needs are met, they are more likely to be loyal and continue to purchase from the business. So, effective marketing is important to the success of businesses.

Checkpoint

Why do businesses that use the marketing concept benefit more from marketing?

Marketing Helps People

Individuals benefit from marketing because it improves the exchanges that occur between businesses and consumers. While many people do not easily recognize the benefits of marketing, there are numerous examples of its value.

Consider going to a supermarket to purchase party supplies. You want the store to be conveniently located. It should stock an adequate supply of your favorite brands of decorations, drinks, and snacks. When you get into the store, the products should be easy to locate. The prices should be clearly marked and affordable. Store employees should be able to answer your questions and help you check out and bag your purchases. The store should offer convenient methods of payment, including cash, check, and credit or debit card.

Each of the activities described for the purchase of your party supplies is an example of marketing. Those activities make it easier for you to shop. The business benefits because you purchase the products. You benefit because the business is able to satisfy your needs.

Better Products at a Lower Cost

Marketing provides other benefits to individuals that may not be as obvious. Marketing continually evaluates consumers' likes and dislikes and unmet needs. Based

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Parents are attracted to products that respond to children's health concerns.

on this information, improvements are made to products and services, and new products are developed. As a result of marketing activities, more products are available to satisfy the needs of more customers. This results in higher sales. The increase in sales allows businesses to produce products more efficiently, and costs can decline.

The first personal computers were very basic and not very powerful, but they cost several thousand dollars. Today's personal computers are hundreds of times more powerful, have many features to make them easy to use, and can be purchased for less than \$500. This is possible because of improved technology and marketing.

Expanded Opportunities

Another contribution of marketing to individuals is the large number of employment opportunities. Between one-fourth and one-third of all jobs in the United States are marketing jobs or have marketing as a major job responsibility. Salespeople, customer service representatives, warehouse managers, inventory specialists, marketing researchers, and many others have interesting, financially rewarding careers because of the need for marketing.

Marketing skills are also valuable to people who are not directly employed in the field of marketing. By understanding the marketing process and using the marketing concept, you will be able to

Fast FACTS

According to *Job Outlook 2007*, Marketing/Marketing Management is one of the top 10 degrees at the bachelor's degree level in demand by employers.

accomplish a number of your goals. Marketing skills can help you get elected to an office in a club, prepare for a job or for college, plan a fundraising activity for an organization, or start your own business.

As a result of marketing, people can choose from a wide variety of products and services, find businesses that respond to their needs, have access to good jobs, and develop skills that can help meet personal goals.

Checkpoint

What percentage of jobs in the United States involves the performance of marketing activities as a major job responsibility?

Marketing Benefits Society

Does society benefit because of marketing? This question often is debated, but the evidence seems to indicate there are many positive effects of marketing for society, as shown in Figure 2-1.

New and Better Products



Marketing helps to identify and develop new and better products and services for consumers. Many of those products and services are beneficial to society in general.

More efficient automobiles use less gasoline and cause less pollution. Biodegradable products reduce the growing need for landfill space. Products like airbags and motorcycle helmets reduce the

FIGURE 2-1

All of the benefits of marketing are not obvious. However, those benefits are important to consumers, businesses, and society.

Benefits of Marketing
• Businesses meet consumer needs
• Consumers make better decisions
• Natural resources are used more effectively
• Standard of living is improved
• International trade increases

number and severity of injuries from accidents. All of these products were developed to meet the needs of consumers and society.



Digital Digest

Feedback for Sale

When marketers want quick feedback or additional research to supplement their data, they can turn to several Internet services. Many retail web sites such as Amazon.com and cnet.com allow consumers to review products. Other web sites such as planetfeedback.com, American Consumer Opinion (acop.com), and Epinions.com were created to give consumers a chance to voice their opinions about products and services.

These feedback services, in turn, are building databases that can complement companies' own marketing research. The web sites make money by selling the customer data they collect to businesses. The data can give businesses insight into

their own products, services, and marketing efforts as well as those of their competitors. These Internet services can be quicker and more cost-effective in collecting data because they actively seek out consumers eager to review products and because they collect data on millions of products from consumers around the globe.

Think Critically

1. What kinds of useful information could a company obtain from data compiled by an Internet feedback service?
2. Why might dissatisfied customers vent their frustrations through an Internet feedback service rather than writing or calling a company directly themselves?

Marketing encourages businesses to provide products and services that consumers want. It also helps educate consumers to make better purchasing decisions. As a result, natural resources and raw materials can be used more efficiently rather than being wasted on products consumers will not buy.

Better Standards of Living



Marketing improves the standard of living in a country. The standard of living is based on the products and services available to consumers, the amount of resources consumers have to obtain the products and services, and the quality of life for consumers. Countries that have well-developed marketing systems are able to make more and better products available to consumers. Those countries also have more jobs for their citizens and higher wage scales as a result of marketing.



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Marketing helps improve our standard of living. How is this demonstrated at your local supermarket?

Improved International Trade

Marketing has been particularly effective in improving international trade.

International trade is the sale of products and services to people in other countries. International trade has many benefits for the participating countries and for the consumers in those countries. Think of the number of products you buy that were produced in another country. Just as the United States is a large consumer of foreign products, many U.S. businesses sell products internationally. Without marketing, international trade would not be possible.

Marketing activities are essential for international trade. Marketers help to

determine where products can be sold and how to sell them in countries that may have very different business procedures, money systems, and buying practices. Methods of shipping and product handling must be identified or developed. Decisions about customer service must be made. Promotional methods that are appropriate for the people in each country or region have to be developed to ensure that customers understand the products and their benefits.

Checkpoint

How does marketing help the environment?

2-1 Assessment

Xtra!
Study Tools

school.cengage.com/marketing/marketing

Key Concepts

Determine the best answer.

- All of the following tend to occur when the marketing concept is used effectively *except*
 - customer satisfaction increases
 - sales go up
 - prices go up
 - costs are reduced
- All of the following are examples of marketing jobs *except*
 - web site designer
 - sales representative
 - public relations specialist
 - all of the above are marketing jobs
- The effects of marketing on society include all of the following *except*
 - better products
 - decrease in international trade
 - more jobs
 - improvements to the environment

Make Academic Connections

- Visual Art** Select a business from which you purchase products or services. Create a graphic or other visual representation showing how marketing affects this business.
- Consumer Economics** Marketing is said to improve exchanges between businesses and consumers. Make a list of at least five products or services that you buy or use. Describe how marketing has improved the exchange process for each of these products or services. Organize this information in a spreadsheet.

Connect to



- You work for a food processing company that is considering selling its product globally. The owner has no experience marketing products internationally and has asked for your advice. Prepare a two-minute presentation on how international trade can benefit the business. Include two specific ways that marketing can support the company's efforts. Give your speech to your teacher (judge).

Criticisms of Marketing

2-2

GOALS

- Discuss three common criticisms of marketing.
- Explain how marketing can be used to solve social problems.

KEY TERMS

green (environmental)
marketing, p. 44

marketing matters

The activities associated with marketing can sometimes cause customers and other people to get upset. Marketing has been accused of creating a false need for unnecessary products. Some people feel that marketing is a waste of money and only serves to increase the price customers pay. Others claim that high-quality products do not need any marketing because the products will sell themselves.

Work with a group. Discuss each of these complaints and reasons why they are valid. Then try to come up with reasons why these criticisms are wrong. Share your results with the other groups.

Common Complaints

It would be easy to say that marketing has only positive results. That is not always the case. If not used appropriately, marketing can have negative effects. The misuse of marketing has led to some criticisms and has created a negative image for some marketing activities. Business people must take criticisms of marketing seriously. If consumers have a negative opinion about an important part of a business, it can affect whether or not they will be customers.

Marketing Causes Unneeded Purchases

Because of marketing, consumers have many choices of products to purchase. Those products are readily available in many stores. They are displayed in ways that make them easy to purchase, and they are packaged to attract attention. Advertising is used extensively to encourage people to consider specific brands of products. Credit and special financing arrangements

are often available for expensive products to make them seem more affordable. Marketing activities and the power of promotion can increase the sales of products and services.



Do you think credit cards are a positive outcome of marketing? Why or why not?

Businesses using the marketing concept should carefully consider the potential impact of marketing activities on consumers. While it might seem appropriate to use any tool that will result in more sales of a product, the long-term results of the sale should also be considered. If a customer buys a product because of marketing rather than because the product is really needed,



World View

Borders Can Be Barriers

International borders can create challenges for companies marketing products overseas. Marketers must overcome cultural differences. Many countries also protect their local industries by regulating the number of foreign imports or by enacting high tariffs to make it easier for local businesses to compete with international companies.

It is particularly common for news and entertainment media to be regulated in foreign countries. Because most film markets cannot compete with the high budgets and marketing power of Hollywood studios, foreign governments sometimes require that a certain percentage of films shown be locally produced. France is particularly protective of its film and television industries, and the European Union tries to reserve at least half of its television programming for shows made in Europe.

The United States, on the other hand, has no formal barriers to entertainment imports. However, foreign films, especially foreign-language films with subtitles, typically only play in small theaters and enjoy modest success here. A foreign-made show occasionally crosses cultural barriers and finds success in the United States. *Teletubbies*, a children's program produced in the U.K., has been a smash hit here. But more often, U.S. studios will remake a foreign hit to be more relevant to American audiences, as they did with the British television comedy, *The Office*.

Think Critically

1. Why do you think foreign-language movies with English subtitles are not often successful in the United States?
2. How have the development of the Internet and the growth of cable TV helped to break down cultural barriers?

there is a good chance the customer will be dissatisfied. How many times have you purchased something and then quickly decided you really did not want or need the item? What actions did you take?

Many consumers simply return the item for a refund. The business has now lost the sale, and it also has a product that is worth much less than before and perhaps cannot be resold. Even if the consumers do not return the products, they are likely to be dissatisfied. Do you believe the consumers will buy that product again? The business is left with returned merchandise, a dissatisfied customer, and possibly a bad reputation among the customer's friends.

To respond to this criticism, business people must be sensitive to the needs and experiences of customers. Products and services should be

carefully matched to customers' needs. Products that do not sell should be evaluated to determine why customers do not want them. In that way, the business can make better planning decisions in the future in order to offer products and services that customers want.

Marketing should start with good products. If a product is not meeting customer needs, business people should avoid using marketing strategies such as promotion

Working in Teams

Working with a team, select a product and list all of the marketing activities that must occur to accommodate the exchange between the business and the customer. Outline how the exchange would work without marketing. As a team, discuss why marketing is needed.

and price reductions to try to sell the product. This will often lead to dissatisfaction with both the product and the business.

Finally, the business must value long-term relationships with customers. One sale is not enough. The business will be successful only when customers return repeatedly because they are satisfied with the business and believe the business is concerned about their needs.

Marketing Wastes Money

As seen in Figure 2-2, the average cost of all marketing activities is about 50 percent of the price of products. For some products it is much higher, and for others, it is a very small percentage. Since many people think of marketing as only advertising and selling, they are upset when they believe those activities double the price of their purchases.

In reality, promotion and selling are a small part of the cost of marketing—typically about 2 to 10 percent of the product's price—and effective promotion and selling do increase the value to the customer. Advertising can provide product information so that you can make the best choice. It can inform you where a product can be purchased and when it is on sale. Advertising can even result in savings because of the information provided. A salesperson who helps you select the best product for your needs rather than sells you something you do not want helps you spend your money more effectively.

Economists who study the impact of marketing activities on product prices have demonstrated that marketing actually results in lower prices in the long run. Because of marketing, products can be sold to more customers. This, in turn, creates more competition among businesses. When consumers have more choices of products, they will usually buy those that are reasonably priced. That encourages businesses to keep prices as low as possible to be competitive. According to the economists, increased sales volume and competition result in lower prices for consumers.

Marketing Is Not Always Needed

There are many examples of businesses that rely on marketing to sell poor-quality products. Think of the used automobile with many mechanical problems that is sold because the salesperson convinced the unsuspecting customer that the car is in good condition. There are numerous tales of unsuspecting people buying land based on information in a brochure or videotape only to discover that the land is in a swamp or on the side of a steep mountain. Marketing is misused in those situations to misrepresent poor products.

On the other hand, consider whether or not a high-quality product needs marketing. Without marketing, it would be the responsibility of the consumer to find out that the product exists and to gather information about it. The consumer would have to locate the product, pay cash for it, and transport it from where it was manufactured to where it would be used. The customer would assume all of the risk in moving the product. If it was damaged, the customer would be responsible.

These examples show that marketing is important even for quality products and

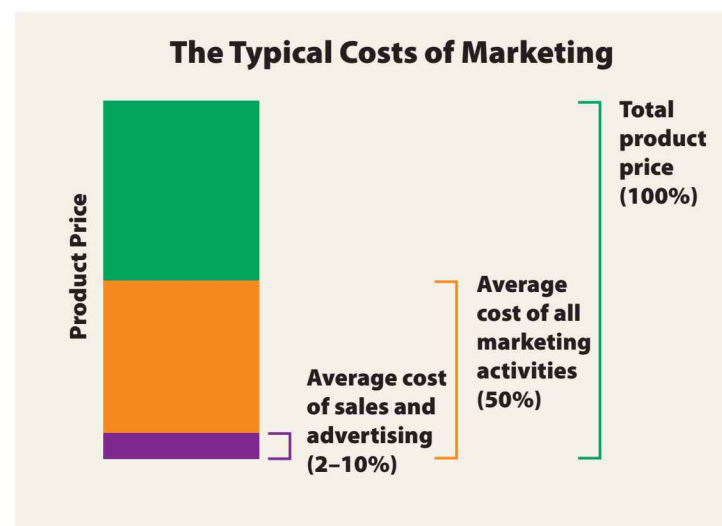


FIGURE 2-2

On average, total marketing expenses are about one-half of a product's price, while sales and advertising costs average about 2 to 10 percent of the price.

services. Marketing activities must be performed in every exchange. If the business is not responsible for marketing, consumers will have to complete the activities themselves in order to purchase the product or service.

Checkpoint

Why is a business that is committed to long-term customer relationships less likely to use high-pressure sales tactics?

Marketing Solves Problems

Marketing, if misused, can have negative results. However, when it is used effectively, marketing can help to solve important problems and contribute to social improvement.

Marketing Increases Public Awareness



There are many serious problems facing our society. Concerns about health care, crime levels, poverty, diseases, racism, education, unemployment, drug use, teenage pregnancy, and the environment all require the attention of many people if solutions are to be found. Marketing contributes to the solutions in several ways. Through communication, people are more aware of societal problems and how they affect individuals and the country. Consider the number of times you have received information on using seat belts, recycling, the dangers of drugs and alcohol, and reasons to stay in school. Marketers have been responsible for developing the advertisements and public service announcements you have seen.

Marketing has encouraged people to eat low-cholesterol products, quit smoking, contribute money to charity and relief organizations, and support research into cures for diseases like AIDS and cancer. Marketing has encouraged people to vote and to avoid drinking and driving. Many important social issues are now receiving



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Today, energy companies must work to demonstrate their commitment to a clean environment.

much attention because of effective marketing.

Many businesses now promote the use of green marketing. **Green (environmental) marketing** consists of marketing activities designed to satisfy customer needs without negatively impacting the environment. Businesses promote the importance of environmentally friendly products and encourage consumers to purchase such products.

Planning a Career in... *Community Relations*



PHOTO: ©GETTY IMAGES/PHOTODISC

"The fire engines that roared down our street last night woke up half the neighborhood. Our teenage neighbor had forgotten to extinguish a candle before going to bed. The smoke detector woke up the family. Their nine-year-old was a hero because he had reminded his parents to change the smoke detector batteries when the time changed."

Did you ever experience a positive outcome because you prepared for a potentially harmful event?

Public awareness campaigns reach out to communities to improve the quality of life within the community. Whether it is informing people about Lyme disease or reminding people to have cancer screening check-ups, these campaigns increase awareness on a number of vital issues.

Employment Outlook

- Although faster than average growth is expected, actual job opportunities will vary by industry.
- Related work experience and state-of-the-art Internet skills will increase a job candidate's competitiveness.

Job Titles

- Community Outreach Coordinator
- Public Relations Officer
- Community Relations Liaison
- Director of Media
- Social Service and Outreach Manager
- Programs Specialist
- Cancer Society Community Relations

Needed Skills

- A bachelor's degree is usually required.
- Excellent written and oral communication skills are helpful.



- A perpetual ability to stay abreast of current trends in your industry is required.

What's it like to work in... *Community Relations*

Jada arrives at her office at 9:00 A.M. As the Customer Communications Manager for her publicly funded city bus system, she will spend the next hour reviewing the print and radio "Ride the Bus" ad campaigns that will run for the rest of the summer. Reminding commuters how they can help reduce smog by riding the bus is an effective way to both increase ridership and minimize smog.

After lunch, Jada gives a presentation on the city's new "fare assistance" program to representatives from various social service agencies. Jada needs to inform the elderly, low-income city residents, and students about "fare assistance." The presentation feedback provided by the agency representatives will help her accomplish that goal. The bus system strives to provide economical transportation to as many citizens as possible.

At 4:00 P.M., representatives from a local advertising agency meet with Jada and her team to review the new posters designed to increase ridership. Featuring endorsements of riders from all walks of life, the posters are intended to increase ridership throughout the community.

What About You

What issues do you believe are important to a community's well-being, and how would you promote those ideas if you worked in community relations?

Marketing Helps Match Supply with Demand



Products and services are not always available where consumers most need them. For example, if there is a drought in one part of the country, farmers and ranchers in that area may not have enough hay and grain to feed their livestock. At the same time, there might be an excess supply in other areas. An effective distribution system can move the hay and grain quickly from one part of the country to another, matching supply and demand.

Oil products and gasoline can be distributed throughout the country using an extensive network of pipelines. If a greater supply of natural gas or heating oil is needed in the North during an especially cold winter, it can be routed away from areas that have less demand. Marketing helps to prevent or reduce the impact of problems that could otherwise result in serious outcomes for society.

Checkpoint

If a heat wave in the West is causing electrical outages, how can marketing help alleviate the problem?

2-2 Assessment

Xtra!
Study Tools

school.cengage.com/marketing/marketing

Key Concepts

Determine the best answer.

- On average, marketing costs represent what percentage of the price that a consumer pays for a product?
 - 2%
 - 10%
 - 50%
 - 75%
- True or False: Marketing activities result in lower product prices in the long run.
- Complaints about marketing include all of the following *except*
 - Marketing leads to unneeded purchases.
 - Marketing creates an imbalance in supply and demand.
 - Marketing is a waste of money.
 - Marketing is not necessary for all products.
- Effective uses for marketing include
 - contributing to social improvement
 - matching supply with demand
 - selling products that do not meet consumers' needs
 - both a and b

Make Academic Connections

- Social Studies** Marketing is responsible for many successful public awareness campaigns, such as *Don't Drink and Drive*, *Buckle Up*, and *Just Say No*. Think of a problem that is prevalent in society today. Create a poster or some other visual aid that would contribute to a public awareness campaign for the problem.
- Economics** Explain the effects of marketing on the following business practices:
 - Competition
 - Pricing
 - Supply and demand

Connect to



- You are a marketer working in the farming industry. Cranberry growers in your state are suffering from an oversupply of cranberries. This is forcing them to slash prices and is threatening to put them out of business. Develop a two-page written plan that outlines three specific ways marketing can help balance the supply and demand of cranberries. Present your plan to your teacher (judge).

Increasing Social Responsibility

2-3

GOALS

- Define consumerism.
- Explain ways by which businesses improve their own practices.
- Discuss how ethical issues affect marketers' professional responsibilities.

KEY TERMS

- social responsibility, p. 47
- consumerism, p. 48
- boycott, p. 48
- ethics, p. 50
- code of ethics, p. 50
- self-regulation, p. 50

marketing matters

Most consumers have at one time purchased a product that did not live up to their expectations. A shirt didn't fit right. A household cleanser didn't remove dirt well. A potted plant wilted and died in just a week. A new hairstyle didn't look very good.

Work with a group. Describe an occasion when a product or service you purchased didn't live up to your expectations. How did you handle the situation? Were you satisfied with the outcome? Would you have handled another group member's situation differently than he or she did? Share a summary of your discussion with the other groups.

Consumer Protection



Marketers cannot think only about selling products and making a profit. They must be aware of other effects of

their activities. Marketing can have both positive and negative results. Marketers must be willing to pay attention to society's needs to determine how businesses can address those needs.

The trend today is a greater expectation for businesses to be socially responsible and to aid in solving the problems facing society. Concern about the consequences of actions on others is **social responsibility**. When making decisions, business people realize that they must consider factors beyond what their customers want and what is most profitable for the business. Most business people recognize that their businesses cannot be successful in the long run if society is facing major problems.



How is a store that uses recycled bags being socially responsible?

Increasing the social responsibility of businesses is occurring in three major ways. The growth of consumerism, government regulation, and improving business practices are each playing a role, as shown in Figure 2-3 on the next page.

The Growth of Consumerism

Consumerism is the organized actions of groups of consumers seeking to increase their influence on business practices. Consumers as individuals can have only a small influence on the activities of a business. However, when organized as a group, consumers have a much greater impact. They can speak out and meet with business people to recommend changes. They can also use the money they spend on purchases to influence decisions.

While consumers have always attempted to influence business practices, consumerism became an important influence on business practices in the 1960s when President John F. Kennedy presented the Consumer Bill of Rights. The Consumer Bill of Rights identified four rights that all consumers should expect: the right to adequate and accurate information, the right to safe products, the right to product choices, and the right to communicate their ideas and opinions to business and government.

As a result of the attention focused on those rights, consumers have become very active in ensuring that their rights are protected. Some ways used to protect consumer rights are consumer education, consumer information, lobbying, and product boycotts. Consumer groups develop materials and educational programs to be used in schools and in other places to help people become better informed consumers. You may have used some of those materials to learn how to use banking services, purchase insurance, and apply for loans.

There are a number of consumer organizations that test products to determine whether they are safe and whether they provide a good value for the price. The organizations often publish the results in books, magazines, and on the Internet or have a telephone service so people can call for product information before making a

Social Responsibility Must Be Shared

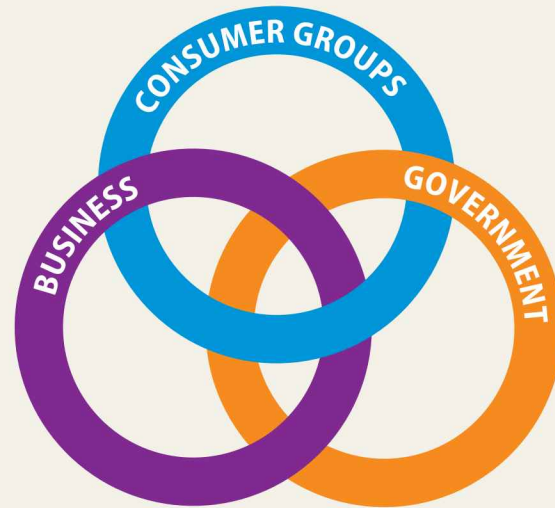


FIGURE 2-3

Consumer groups, government, and business organizations all must play a role in improving society.

purchase. Consumer lobbyists work with national and state legislators to develop laws to protect consumer rights. Some important consumer laws are described in Figure 2-4 on the next page.

Finally, consumers have found that they can influence business practices by the way they spend their money, their consumer votes. If a group of consumers is dissatisfied with the actions or products of a business, they can organize a boycott. A **boycott** is an organized effort to influence a company by refusing to purchase its products. Consumer groups also reinforce positive business practices by encouraging their members to purchase products from businesses that respond to consumer needs.

Fast FACTS

The term *boycott* originated in 1880. It was named after Captain Charles Cunningham Boycott. As an English landlord in Ireland, he ruthlessly evicted his tenants, leading his employees to refuse all cooperation with him.

FIGURE 2-4

Federal legislation is one method of increasing the social responsibility of businesses.

Consumer Laws	
Legislation	Purpose
Sherman Antitrust Act, 1890	To increase competition among businesses by regulating monopolies
Food and Drug Act, 1906	To control the content and labeling of food and drug products by forming the Food and Drug Administration (FDA)
Federal Trade Commission Act, 1914	To form the Federal Trade Commission (FTC) to protect consumer rights
Robinson-Patman Act, 1936	To protect small businesses from unfair pricing practices between manufacturers and large businesses
Fair Packaging and Labeling Act, 1966	To require packages to be accurately labeled and fairly represent the contents
Consumer Credit Protection Act, 1968	To require disclosure of credit requirements and rates to loan applicants
Consumer Product Safety Act, 1972	To set safety standards and to form the Consumer Product Safety Commission (CPSC)
Americans with Disabilities Act, 1990	To prohibit discrimination and ensure equal opportunity for persons with disabilities
Telemarketing and Consumer Fraud and Abuse Prevention Act, 1994	To prohibit deceptive telemarketing practices and regulate calls made to consumers' homes
Millennium Digital Commerce Act, 1999	To regulate the use of electronic contracts and signatures for Internet business transactions
Gramm-Leach-Bliley Financial Modernization Act, 1999	To limit the sharing of consumer information by requiring financial services companies to inform consumers about how private information is handled

Government Regulation

The United States government plays an active role in business practices. The welfare of consumers is at the core of many of the laws and regulations enacted by government. These laws are designed to improve the social impact of business practices. Businesses must comply with consumer

protection laws or risk fines and a loss of business.

Checkpoint

What federal law is intended to protect consumers by requiring that packages be accurately labeled and contents fairly disclosed?

Improving Practices

Most businesses recognize their responsibility to consumers and to society. If consumers are dissatisfied with the business's practices, they will

soon stop buying the company's products. If social problems exist, the government may increase regulation of business or increase taxes to pay for programs

designed to solve the problems. Businesses do not want increased regulation or taxes.

Individual businesses and business organizations are working to improve business practices in several ways. Those ways include codes of ethics, self-regulation, and social action.

Codes of Ethics

Ethics are moral principles or values based on honesty and fairness. A **code of ethics** is a set of standards or rules that guide ethical business behavior. A code of ethics encourages honest and proper conduct. Business people recognize that the inappropriate or illegal behavior of one company can have a very negative effect on the whole industry. They attempt to influence that behavior by agreeing on standards of conduct. By agreeing to a code of ethics, business people encourage responsible behavior. In some groups, the codes of ethics are enforced by penalties established by the industry that are applied to businesses that violate the standards. The American Marketing Association (AMA) Code of Ethics describes specific responsibilities for marketers in the areas of product planning, promotion, pricing, distribution, and marketing research. A portion of the AMA's Code of Ethics is summarized in Figure 2-5.

Self-Regulation

Individual businesses and groups of businesses in the same industry have developed procedures to respond to consumer problems and to encourage customers to work directly with the businesses to solve problems. Taking personal responsibility for actions is known as **self-regulation**. The Better Business Bureau is a consumer protection organization sponsored by businesses. The purpose of the Better Business Bureau is to gather information from consumers about problems, provide information about improper business practices, and attempt to solve problems between businesses and their customers.

Many businesses have consumer service departments that work to solve consumer problems and to provide consumers with information about the company and its products. The Butterball Turkey Talk-Line has been in operation for 25 years. It is open through the months of November and December to answer consumers' questions about how to prepare a Butterball turkey for their holiday meals.

Some industries, such as homebuilders, developed procedures for consumers to use

FIGURE 2-5

Organizations and industries often develop a code of ethics to promote honest and proper standards of conduct.

Responsibilities of the Marketer	
In Product Development and Management	<ul style="list-style-type: none"> disclosing all substantial risks associated with a product or service identifying substitutions that change the product or impact buying decisions identifying extra cost-added features
In Promotions	<ul style="list-style-type: none"> avoiding false and misleading advertising rejecting high-pressure or misleading sales tactics and promotions
In Distribution	<ul style="list-style-type: none"> not exploiting customers by manipulating the availability of a product not using coercion not exerting undue influence over the reseller's choice to handle a product
In Pricing	<ul style="list-style-type: none"> not engaging in price fixing not practicing predatory pricing disclosing the full price associated with any purchase
In Marketing Research	<ul style="list-style-type: none"> prohibiting selling or fundraising disguised as conducting research avoiding misrepresentation and omission of pertinent research data treating clients and suppliers fairly

to resolve problems. Problems that cannot be resolved between the customer and the business are referred to an independent panel that can help determine a fair solution.

Social Action

Business people are concerned about the world in which they live. Many are active in helping to solve some of society's serious problems by investing time and money to help their communities. Recently, Microsoft and its employees reached a contribution milestone after donating more than \$2.5 billion in cash, services, and software to nonprofit organizations around the world. McDonald's sponsors Ronald McDonald Houses for families with children who are hospitalized with serious illnesses.

NETBookmark

Marketers cannot think only about selling products and making a profit. They must be aware of other effects of their activities. Access school.cengage.com/marketing/marketing and click on the link for Chapter 2. Read the article about Burger King. What socially responsible action is the company taking? Why do you think Burger King has made this decision?

school.cengage.com/marketing/marketing

Checkpoint

What is a code of ethics?

Ethics in Marketing

Each day you can see many examples of businesses that feel a social responsibility to help their community and

its people. Business ethics has received a great deal of attention recently. Most business people behave ethically. However, the



Judgment Call

Should Marketers Target Kids?

While monetary profit is a goal of marketers, they must always consider what is ethical. The question of marketing to children is one such ethical dilemma. Because children represent an increasing amount of purchase power, they are an alluring target for marketers. But is it appropriate to target kids?

This issue was debated in 2000 when the in-school television educational program Channel One was introduced in more than 12,000 schools. Some people were appalled to learn that Channel One would carry commercials. Channel One, however, argued that the advertising income was funding the whole program.

Because marketing to children is such a hotly contested topic, children's advocacy watch groups and regulatory commissions such as the Children's Advertising Regulatory Unit (CARU) have been created to help determine what is appropriate and to set guidelines for marketers to follow when it comes to children.

Think Critically

1. Why might people oppose advertiser-supported TV in schools?
2. Is there an ethical difference between TV ads for children at home and TV ads for children in a program they are required to view in their schools?

actions of a few people can cause customers to wonder if ethical behavior is really valued in business.

Responsibility to Customers

Marketers deal directly with customers. They ask customers to spend money for products intended to satisfy needs and wants. Because of this relationship, marketers have a special responsibility to behave ethically. People place a high value on ethical business behavior. Business people are expected to be honest and fair in dealings with customers, employees, and other businesses.

Each marketer is responsible for ethical behavior. Decisions and actions should be evaluated to determine if they are honest and fair. Sometimes there will appear to be conflicts in what is best for the business, its employees, customers, competitors, and society in general. Some people suggest that the decision should be based on what

is best for the most people. Others believe an action is right or wrong based on how it will affect the people directly involved.

In 2007, ConAgra Foods recalled all varieties of its Peter Pan Peanut Butter product because of a possible link to salmonella poisoning. Although initial product tests did not indicate the presence of salmonella, ConAgra voluntarily recalled the peanut butter and offered consumers a refund. ConAgra acted responsibly and ethically by making consumer health and safety a priority. Upon further investigation, ConAgra discovered that there was salmonella contamination caused by water damage experienced during a flood at one of its plants. ConAgra closed the plant to make renovations that would result in safer production processes.

Harm and Accountability

In some cases, it may appear there is no real harm in unethical behavior. If



Figure This

Ethical Marketing Pays Off

Not only is honest marketing the ethical thing to do, but it makes business sense as well. Ideally, a company wants to build brand loyalty and enter into long-term relationships with its customers. Loyal customers purchase repeatedly from the same company. Over a lifetime, these purchases can really add up. And when customers are happy with a product or service, they will recommend it to others.

It may be tempting for a company to try to increase sales through deceptive marketing that overstates the benefit of its product. This practice not only is unethical but also can be less profitable to the company in the long run.

Think Critically

1. Two car dealerships, Dealership A and Dealership B, both make an average

of \$1,000 profit for every car they sell. Through the use of deceptive sales and pricing, Dealership A sells 100 cars in May. However, none of those 100 customers ever buy from Dealership A again. Dealership B is honest with its customers but sells only 70 cars in May. However, 30 of those customers buy an average of three more cars from Dealership B throughout their lifetime. What is the difference in the monthly and long-term profit between Dealership A and Dealership B from those customers?

2. Dealership B's repeat customers also each recommend Dealership B to six friends. Fifty percent of those friends end up buying a car from Dealership B. How much profit does Dealership B make from this word-of-mouth promotion?

dishonesty results in a customer buying your product rather than your competitor's, or if you can conceal a mistake you made, you may believe that it does not matter. But marketers must remember that their emphasis must be on what is best for everyone in an exchange. Marketers' actions affect many others, both inside and outside the business.

In other cases, unethical behavior has negative consequences for individuals and businesses. Improper marketing can harm customers. Society is hurt by businesses that have no concern for the products and services they sell or how or to whom they are marketed. Senior citizens often fall prey to the unethical business practices

of salespeople who sell them poor-quality or unneeded products or services. Finally, many unethical business practices are illegal. People have been fined and imprisoned as a result of unethical actions.

Some businesses are developing education programs and operating procedures to help employees understand how to make ethical decisions. They want to improve the ethical image of all businesses and ensure that customers believe they will be treated fairly.

Checkpoint

Why do marketers have a special responsibility for ethical behavior?

2-3 Assessment



Key Concepts

Determine the best answer.

1. Which national elected leader proposed the Consumer Bill of Rights?
 - a. Jimmy Carter
 - b. Ronald Reagan
 - c. John F. Kennedy
 - d. none of the above
2. Which of the following is *not* one of the four basic rights enumerated in the Consumer Bill of Rights?
 - a. right to adequate and accurate information
 - b. right to fair prices
 - c. right to safe products
 - d. right to product choices
3. Marketing activities covered in the American Marketing Association's code of ethics include
 - a. promotions, pricing, and distribution
 - b. promotions, distribution, and consumerism
 - c. product development, pricing, and self-regulation
 - d. none of the above
4. True or False: The Better Business Bureau is a consumer protection organization sponsored by consumer groups.

Make Academic Connections

5. **Government** Many consumer laws exist to protect consumer rights. Research one of these laws. Write one paragraph describing the purpose of the law and the history surrounding it.
6. **Ethics** Although most businesses act ethically, some do not. Search newspapers or the Internet for recent stories about businesses that used unethical marketing tactics resulting in harm to consumers. Report about the unethical activities in a one-page paper.

Connect to



7. Your investor relations team works for a large public corporation that regularly makes sizable contributions to charity and relief efforts. The annual shareholder meeting is coming up. Some vocal shareholders have expressed a concern that the contributions are cutting into the corporation's profits. Your team has been asked to prepare a three-minute presentation for the meeting to address the following question: If a corporation is supposed to maximize its shareholders' return on investment, how can it justify giving millions of dollars to social causes? Make your team presentation to your teacher (judge).