Political-Legal Environment  Political activities, both foreign and domestic, have profound effects on marketing. For example, legislation on the use of cell phones in cars and the Clean Air Act have determined the destinies of entire industries. Marketing managers try to maintain favorable political-legal environments in several ways. To gain public support for products and activities, marketers use ad campaigns to raise public awareness of local, regional, or national issues. Companies contribute to political candidates and frequently support the activities of political action committees (PACs) maintained by their respective industries.

Sociocultural Environment  More people are working in home offices, the number of Hispanic-speaking families is increasing, and low-carb food preferences reflect a continuing concern for healthy lifestyles. These and other trends reflect the values, beliefs, and ideas that shape U.S. society.

Changing social values force companies to develop and promote new products for both individual consumers and industrial customers. For example, although most of us value privacy, Web surfers have discovered that a loss of privacy is often a price for the convenience of Internet shopping. Web sites regularly collect information about your surfing habits to use for marketing purposes and to sell to other firms. Responding to the growing demand for better privacy protection, firms like iNetPrivacy offer new products, such as Anonymity 4 Proxy software, which allows you to surf the Internet anonymously.

Technological Environment  New technologies create new goods (such as global positioning systems) and services (such as online courses). New products make existing products obsolete (digital chips are fast replacing film for cameras), and many products change our values and lifestyles. In turn, lifestyle changes often stimulate new products not directly related to the new technologies themselves. Cell phones, for example, not only facilitate business communication but free up time for recreation and leisure. The Internet has become a medium for selling, buying, and distributing products from your own home to customers around the world.

Economic Environment  Because they determine spending patterns by consumers, businesses, and governments, economic conditions influence marketing plans for product offerings, pricing, and promotional strategies. Marketers are concerned with such
Marketing strategies are strongly influenced by powerful outside forces. For example, new technologies create new products, such as the Chinese cell phone "gas station" kiosk shown here. Called shouji jiayouzhan in Chinese, these kiosks enable customers to recharge their cell phones just as they would refuel their cars. The screens on the kiosks also provide marketers with a new way to display ads to waiting customers.

Marketing strategies are strongly influenced by powerful outside forces. For example, new technologies create new products, such as the Chinese cell phone "gas station" kiosk shown here. Called shouji jiayouzhan in Chinese, these kiosks enable customers to recharge their cell phones just as they would refuel their cars. The screens on the kiosks also provide marketers with a new way to display ads to waiting customers.

Economic variables as inflation, interest rates, and recession. Thus, they monitor the general business cycle to anticipate trends in consumer and business spending.

Traditionally, economic analysis focused on the national economy. Increasingly, however, as nations form more complex economic connections, the global economy is more prominent in the thinking of marketers everywhere. U.S. auto drivers felt the bite of global influence in 2006 when the price of crude oil reached an all-time high—more than $70 a barrel. This jump in price reflected a variety of circumstances in the global economic environment: Prices rose because traders were afraid of terrorism in the Middle East, and gas prices went up because demand had surged, especially in the United States and China. The possible repercussions include reduced consumer spending on other products, lower corporate profits, and inflation.

**Competitive Environment** In a competitive environment, marketers must convince buyers that they should purchase one company’s products rather than those of some other seller. Because both consumers and commercial buyers have limited resources, every dollar spent on one product is no longer available for other purchases. Each marketing program, therefore, seeks to make its product the most attractive. Expressed in business terms, a failed program loses the buyer’s dollar forever (or at least until it is time for the next purchase decision).

To promote products effectively, marketers must first understand which of three types of competition they face:

- **Substitute products** may not look alike or they may seem very different from one another, but they can fulfill the same need. For example, your cholesterol level may be controlled with either of two competing products: a physical fitness program or a drug regimen. The fitness program and the drugs compete as substitute products.

- **Brand competition** occurs between similar products, such as the auditing services provided by the large accounting firms of Ernst & Young and KPMG. Brand competition is based on buyers’ perceptions of the benefits of products offered by particular companies.
International competition matches the products of domestic marketers against those of foreign competitors—such as a flight on Swissair versus Delta Airlines. The intensity of international competition has been heightened by the formation of alliances, such as the European Union and NAFTA.

Having identified the kind of competition, marketers can then develop a strategy for attracting more customers.

### STRATEGY: THE MARKETING MIX

A company’s marketing managers are responsible for planning and implementing all the activities that result in the transfer of goods or services to its customers. These activities culminate in the marketing plan—a detailed strategy for focusing marketing efforts on consumer needs and wants. Therefore, marketing strategy begins when a company identifies a consumer need and develops a product to meet it.

In planning and implementing strategies, marketing managers develop the four basic components (often called the “Four Ps”) of the marketing mix: product, pricing, place, and promotion.

**Product** Marketing begins with a product—a good, a service, or an idea designed to fill a consumer need or want. Conceiving and developing new products is a constant challenge for marketers, who must always consider the factor of change—changing technology, changing consumer wants and needs, and changing economic conditions. Meeting consumer needs often means changing existing products to keep pace with emerging markets and competitors.

**Product Differentiation** Producers often promote particular features of products in order to distinguish them in the marketplace. Product differentiation is the creation of a feature or image that makes a product differ enough from existing products to attract consumers. For example, Jann Wenner started *Rolling Stone* magazine in 1967, and it’s been the cash cow of Wenner Media ever since. In 1985, Wenner bought *Us* magazine and set out to

Wenner Media Chair and CEO Jann Wenner is hoping that greater product differentiation between his *Us* Weekly magazine and rival *People* will attract more customers.
Pricing  Pricing a product—selecting the best price at which to sell it—is often a balancing act. On the one hand, prices must support a variety of costs—operating, administrative, and research costs as well as marketing costs. On the other hand, prices can’t be so high that consumers turn to competitors. Successful pricing means finding a profitable middle ground between these two requirements.

Both low- and high-price strategies can be effective in different situations. Low prices, for example, generally lead to larger sales volumes. High prices usually limit market size but increase profits per unit. High prices may also attract customers by implying that a product is of high quality. We discuss pricing in more detail in Chapter 12.

Place (Distribution)  In the marketing mix, place refers to distribution. Placing a product in the proper outlet—for example, a retail store—requires decisions about several activities, all of which are concerned with getting the product from the producer to the consumer. Decisions about warehousing and inventory control are distribution decisions, as are decisions about transportation options.

Firms must also make decisions about the channels through which they distribute products. Many manufacturers, for example, sell goods to other companies that, in turn, distribute them to retailers. Others sell directly to major retailers, such as Target and Wal-Mart. Still others sell directly to final consumers. We explain distribution decisions further in Chapter 12.

Promotion  The most visible component of the marketing mix is no doubt promotion, which refers to techniques for communicating information about products. The most important promotional tools include advertising, personal selling, sales promotions, publicity, and public relations. We describe promotional activities more fully in Chapter 12.

SELF-CHECK QUESTIONS 1–3

You should now be able to answer Self-Check Questions 1–3.*

1 Multiple Choice  Marketers know that consumers buy products that offer the best value. Which of the following is not true regarding value for the buyer?
   (a) it is related to the buyer’s wants and needs
   (b) it is the comparison of a product’s benefits versus its costs
   (c) it cannot be measured
   (d) market strategies focus on increasing it

2 Multiple Choice  All of the following are elements in the marketing mix (the Four Ps of marketing) except:
   (a) pricing
   (b) place (or distribution)
   (c) promotion
   (d) potential

3 True/False  A program in which a bank offers free services to long-standing customers is an example of relationship marketing.

*Answers to Self-Check Questions 1–3 can be found on p. 565.
Chapter 11: Marketing Processes and Consumer Behavior

TARGET MARKETING AND MARKET SEGMENTATION

Marketers have long known that products cannot be all things to all people. Buyers have different tastes, goals, lifestyles, and so on. The emergence of the marketing concept and the recognition of consumer needs and wants led marketers to think in terms of **target markets**—groups of people with similar wants and needs, who can be expected to show interest in the same products. Selecting target markets is usually the first step in the marketing strategy.

Target marketing requires **market segmentation**—dividing a market into categories of customer types or “segments.” Once they have identified segments, companies may adopt a variety of strategies. Some firms market products to more than one segment. General Motors, for example, offers compact cars, vans, trucks, luxury cars, and sports cars with various features and at various price levels. GM’s strategy is to provide an automobile for nearly every segment of the market.

In contrast, some businesses offer a narrower range of products, such as the specialty retailer Sunglass Hut International, aiming toward fewer segments. Note that segmentation is a strategy for analyzing **consumers**, not products. Once a target segment is identified, the marketing of products for that segment begins. The process of fixing, adapting, and communicating the nature of the product itself is called **product positioning**.

IDENTIFYING MARKET SEGMENTS

By definition, members of a market segment must share some common traits that affect their purchasing decisions. In identifying segments, researchers look at several different influences on consumer behavior. Three of the most important are **geographic**, **demographic**, and **psychographic variables**.

**Geographic Variables** Many buying decisions are affected by the places people call home. The heavy rainfall in Washington State, for instance, means that people there buy more umbrellas than people in the Sunbelt. Urban residents don’t need agricultural equipment, and sailboats sell better along the coasts than on the Great Plains. **Geographic variables** are the geographical units, from countries to neighborhoods, that may be considered in a segmentation strategy.

These patterns affect decisions about marketing mixes for a huge range of products. For example, consider a plan to market down-filled parkas in rural Minnesota. Demand will be high and price competition intense. Local newspaper ads may be effective, and the best retail location may be one that is easily reached from several small towns.

Although the marketability of some products is geographically sensitive, others enjoy nearly universal acceptance. Coke, for example, gets more than 70 percent of its sales from international markets. It is the market leader in Great Britain, China, Germany, Japan, Brazil, and Spain. Pepsi’s international sales are about 15 percent of Coke’s. In fact, Coke’s chief competitor in most countries is some local soft drink, not Pepsi, which earns 78 percent of its income at home.

**Demographic Variables** **Demographic variables** describe populations by identifying traits, such as age, income, gender, ethnic background, marital status, race, religion, and social class. For example, several general consumption characteristics can be attributed to certain age groups (18–25, 26–35, 36–45, and so on). Table 11.1 lists some...
possible demographic breakdowns. Depending on the marketer’s purpose, a segment can be a single classification (aged 20–34) or a combination of categories (aged 20–34, married without children, earning $25,000–$34,999).

For example, Hot Topic is a California-based chain that specializes in clothes, accessories, and toys designed to appeal to the Generation Y and Millennials—a demographic consisting of American consumers between 13 and 17. The theme is music—anything from rock and rockabilly to rave and acid rap—because it’s the biggest influence on the demographic’s fashion tastes.

**Psychographic Variables** Markets can also be segmented according to such psychographic variables as lifestyles, interests, and attitudes. For example, Burberry, whose raincoats have been a symbol of British tradition since 1856, has repositioned itself as a global luxury brand, like Gucci and Louis Vuitton. The strategy, which resulted in a 31-percent sales increase, calls for attracting a different type of customer—the top-of-the-line, fashion-conscious individual—who shops at stores like Neiman Marcus and Bergdorf Goodman.5

Psychographics are particularly important to marketers because, unlike demographics and geographics, they can be changed by marketing efforts. For example, Polish companies have overcome consumer resistance by promoting the safety and desirability of using credit cards rather than depending solely on cash. One product of changing attitudes is a booming economy and the emergence of a robust middle class. The increasing number

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**TABLE 11.1 DEMOGRAPHIC VARIABLES**

<table>
<thead>
<tr>
<th>Age</th>
<th>Under 5, 5–11, 12–19, 20–34, 35–49, 50–64, 65+</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education</td>
<td>Grade school or less, some high school, graduated high school, some college, college degree, advanced degree</td>
</tr>
<tr>
<td>Family Life Cycle</td>
<td>Young single, young married without children, young married with children, older married with children under 18, older married without children under 18, older single, other</td>
</tr>
<tr>
<td>Family Size</td>
<td>1, 2–3, 4–5, 6+</td>
</tr>
<tr>
<td>Income</td>
<td>Under $9,000, $9,000–$14,999, $15,000–$24,999, $25,000–$34,999, $35,000–$45,000, over $45,000</td>
</tr>
<tr>
<td>Nationality</td>
<td>African, American, Asian, British, Eastern European, French, German, Irish, Italian, Latin American, Middle Eastern, Scandinavian</td>
</tr>
<tr>
<td>Race</td>
<td>Native American, Asian, African American, Caucasian</td>
</tr>
<tr>
<td>Religion</td>
<td>Buddhist, Catholic, Hindu, Jewish, Muslim, Protestant</td>
</tr>
<tr>
<td>Sex</td>
<td>Male, female</td>
</tr>
</tbody>
</table>
of Polish households with TVs, appliances, automobiles, and houses is defining the status of Poland’s middle class as the most stable in the former Soviet bloc.6

UNDERSTANDING CONSUMER BEHAVIOR

Although marketing managers can tell us what features people want in a new refrigerator, they cannot tell us why they buy particular refrigerators. What desire are consumers fulfilling? Is there a psychological or sociological explanation for why they purchase one product and not another? These questions and many others are addressed in the study of consumer behavior—the study of the decision process by which people buy and consume products.

INFLUENCES ON CONSUMER BEHAVIOR

To understand consumer behavior, marketers draw heavily on such fields as psychology and sociology. The result is a focus on four major influences on consumer behavior: psychological, personal, social, and cultural. By identifying which influences are most active in certain circumstances, marketers try to explain consumer choices and predict future buying behavior.

1 Psychological influences include an individual’s motivations, perceptions, ability to learn, and attitudes.
2 Personal influences include lifestyle, personality, and economic status.
3 Social influences include family, opinion leaders (people whose opinions are sought by others), and such reference groups as friends, coworkers, and professional associates.
4 Cultural influences include culture (the way of living that distinguishes one large group from another), subculture (smaller groups, such as ethnic groups, with shared values), and social class (the cultural ranking of groups according to such criteria as background, occupation, and income).

Although these factors can have a strong impact on a consumer’s choices, their effect on actual purchases is sometimes weak or negligible. Some consumers, for example, exhibit high brand loyalty—they regularly purchase products because they are satisfied with their performance. Such people (for example, users of Maytag appliances) are less subject to influence and stick with preferred brands. On the other hand, the clothes you wear and the food you eat often reflect social and psychological influences on your consumer behavior.
THE CONSUMER BUYING PROCESS

Students of consumer behavior have constructed various models to help show how consumers decide to buy products. Figure 11.2 presents one such model. At the core of this and similar models is an awareness of the many influences that lead to consumption. Ultimately, marketers use this information to develop marketing plans.

Problem/Need Recognition This process begins when the consumer recognizes a problem or need. After strenuous exercise, for example, you may realize that you’re thirsty. Need recognition also occurs when you have a chance to change your buying habits. When you obtain your first job after graduation, your new income may let you buy things that were once too expensive for you. You may find that you need professional clothing, apartment furnishings, and a car. American Express and Citibank cater to such shifts in needs when they market credit cards to college seniors.

Information Seeking Having recognized a need, consumers often seek information. The search is not always extensive, but before making major purchases, most people seek information from personal sources, public sources, and experience. Before buying an exercise bike, for example, you may read about bikes in *Consumer Reports* or you may test-ride several bikes.

Evaluation of Alternatives If you’re in the market for skis, you probably have some idea of who makes skis and how they differ. Perhaps accumulated knowledge during the information-seeking stage is combined with what you knew beforehand. By analyzing product attributes (color, price, prestige, quality, service record), you’ll compare products before deciding which one best meets your needs.

Purchase Decision Ultimately, consumers make purchase decisions. “Buy” decisions are based on rational motives, emotional motives, or both. Rational motives include:

- **Psychological**
- **Personal**
- **Social**
- **Cultural**

**Figure 11.2** The Consumer Buying Process
Involves the logical evaluation of product attributes: cost, quality, and usefulness. **Emotional motives** involve nonobjective factors and include sociability, imitation of others, and aesthetics. For example, you might buy the same brand of jeans as your friends to feel comfortable in a certain group, not because your friends happen to have the good sense to prefer durable, comfortably priced jeans.

**Postpurchase Evaluation** Marketing does not stop with the sale of a product. What happens *after* the sale is important. Marketers want consumers to be happy after buying products so that they are more likely to buy them again. Because consumers do not want to go through a complex decision process for every purchase, they often repurchase products they have used and liked. Not all consumers are satisfied with their purchases. These buyers are not likely to purchase the same product(s) again and are much more apt to broadcast their experiences than are satisfied customers.

**ORGANIZATIONAL MARKETING AND BUYING BEHAVIOR**

In the consumer market, buying and selling transactions are visible to the public. Equally important, though far less visible, are *organizational (or commercial) markets*. Some 23 million U.S. organizations buy goods and services to be used in creating and delivering consumer products. Marketing to these buyers involves various kinds of markets and buying behaviors different from those in consumer markets.

### ORGANIZATIONAL MARKETS

Organizational or commercial markets fall into three categories: *industrial*, *reseller*, and *government/institutional markets*. Taken together, these markets do about $27 trillion in business annually—more than two times the amount done in the U.S. consumer market.

- **Industrial Market** The *industrial market* includes businesses that buy goods to be converted into other products or that are used up during production. It includes farmers, manufacturers, and some retailers. For example, clockmaking company Seth Thomas buys electronics, metal components, and glass to make clocks for the consumer market. The company also buys office supplies, tools, and factory equipment—items never seen by clock buyers—that are used during production.

- **Reseller Market** Before products reach consumers, they pass through a *reseller market* consisting of intermediaries, including wholesalers and retailers, that buy and resell finished goods. For example, as a leading distributor of parts and accessories for the pleasure boat market, Coast Distribution System buys lights, steering wheels, and propellers and resells them to marinas and boat-repair shops. On resold products, 700,000 U.S. wholesalers have annual sales of $2.7 trillion. Some 3 million U.S. retailers purchase merchandise that, when resold, is valued at $3.2 trillion per year.

- **Government and Institutional Market** In addition to federal and state governments, there are some 87,000 local governments (municipalities, counties, and school districts) in the United States. State and local governments annually spend nearly $3 trillion for durable goods, nondurables, services, and construction. The *institutional market* consists of nongovernmental organizations, such as hospitals, churches, museums, and charities, that also use supplies and equipment as well as legal, accounting, and transportation services.
ORGANIZATIONAL BUYING BEHAVIOR

In some respects, organizational buying behavior bears little resemblance to consumer buying practices. Differences include the buyers’ purchasing skills and an emphasis on buyer-seller relationships.

Differences in Buyers  Unlike most consumers, organizational buyers are professional, specialized, and expert (or at least well-informed):

- As professionals, organizational buyers are trained in methods for negotiating purchase terms. Once buyer-seller agreements have been reached, they also arrange for formal contracts.
- As a rule, industrial buyers are company specialists in a line of items. As one of several buyers for a large bakery, for example, you may specialize in food ingredients. Another buyer may specialize in baking equipment (industrial ovens and mixers), whereas a third may buy office equipment and supplies.
- Industrial buyers are often experts about the products they buy. On a regular basis, organizational buyers study competing products and alternative suppliers by attending trade shows, by reading trade magazines, and by conducting technical discussions with sellers’ representatives.

Differences in the Buyer-Seller Relationship  Consumer-seller relationships are often impersonal, short-lived, one-time interactions. In contrast, industrial situations often involve frequent and enduring buyer-seller relationships. The development of a long-term relationship provides each party with access to the technical strengths of the other as well as the security of knowing what future business to expect. Thus, a buyer and a supplier may form a design team to create products of benefit to both. Accordingly, industrial sellers emphasize personal selling by trained representatives who understand the needs of each customer.

SELF-CHECK QUESTIONS 4–6

You should now be able to answer Self-Check Questions 4–6.*

4 True/False  Target marketing requires market segmentation.
5 Multiple Choice  The following is not a stage in the consumer buying process:
   (a) substitution purchase
   (b) evaluation of alternatives
   (c) information seeking
   (d) problem/need recognition
6 True/False  In terms of market size, organizational buying in the United States is economically much more significant than consumer buying.

*Answers to Self-Check Questions 4–6 can be found on p. 565.

WHAT IS A PRODUCT?

In developing the marketing mix for any product, whether goods or services, marketers must consider what consumers really buy when they purchase products. Only then can these marketers plan strategies effectively. We begin this section where product strategy
begins: By understanding that every product is a value package that provides benefits to satisfy the needs and wants of customers. Next, we describe the major classifications of products, both consumer and industrial. Finally, we discuss the most important component in the offerings of any business: its product mix.

### THE VALUE PACKAGE

Whether it is a physical good, a service, or some combination of the two, customers get value from the various benefits, features, and even intangible rewards associated with a product. **Product features** are the qualities, tangible and intangible, that a company builds into its products, such as a 12-horsepower motor on a lawn mower. However, as we discussed earlier, to attract buyers, features also must provide **benefits**: The lawn mower must produce an attractive lawn. The owner's pleasure in knowing that the mower is nearby when needed is an intangible reward.

Today's consumer regards a product as a bundle of attributes—benefits and features—that, taken together, marketers call the **value package**. Increasingly, buyers expect to receive products with greater value—with more benefits and features at reasonable costs. Consider, for example, the possible attributes in a personal computer value package:

- Easy access to understandable prepurchase information
- Choices in keyboards, monitors, and memory and processing capacities
- Features, such as built-in DVD/CD burners
- Choices of color and design
- Attractive software packages
- Attractive prices
- Fast, simple ordering via the Internet
- Secure credit card purchasing
- Assurance of speedy delivery
- Warranties
- Easy access to technical support
- Prestige of owning a state-of-the-art system

Although the computer includes physical *features*—processing devices and other hardware—most items in the value package are services or intangibles that, collectively, add value by providing *benefits* that increase the customer's satisfaction. Reliable data processing is certainly a benefit, but so too are pride of ownership, access to technical support, and a feeling of security. Today, more firms compete on the basis of enhanced value packages. They find that the addition of a simple new service often pleases customers far beyond the cost of providing it. Just making the purchase transaction more convenient, for example, adds value by sparing customers long waits and cumbersome paperwork.

Look at the ad in Figure 11.3 for SAS Institute, a major designer of statistical software. SAS emphasizes not the technical features of its products and not even the criteria that companies use in selecting software—efficiency, compatibility, and support. Rather, the ad focuses on the customer-oriented benefits that a buyer of SAS software can expect from using the firm’s products: “SAS gives 1-800-FLOWERS.COM the power to know how to cultivate brand loyalty through quality customer relationships.” The product’s benefits are being marketed as part of a complete value package.
We can classify products according to expected buyers, who fall into two groups: buyers of consumer products and buyers of industrial products. As we saw earlier in this chapter, the consumer and industrial buying processes differ significantly. Marketing products to consumers is vastly different from marketing products to other companies.

Classifying Consumer Products
Consumer products are commonly divided into three categories that reflect buyer behavior:

1. **Convenience goods** (such as milk and newspapers) and **convenience services** (such as those offered by fast-food restaurants) are consumed rapidly and regularly. They are inexpensive and are purchased often and with little output of time and effort.

2. **Shopping goods** (such as stereos and tires) and **shopping services** (such as insurance) are more expensive and are purchased less often than convenience products. Consumers often compare brands, sometimes in different stores. They may also evaluate alternatives in terms of style, performance, color, price, and other criteria.

3. **Specialty goods** (such as wedding gowns) and **specialty services** (such as catering for wedding receptions) are extremely important and expensive purchases. Consumers usually decide on precisely what they want and will accept no substitutes. They often go from store to store, sometimes spending a great deal of money and time to get a specific product.

Classifying Industrial Products
Depending on how much they cost and how they will be used, industrial products can be divided into two categories:

1. **Expense items** are goods or services that are consumed within a year by firms producing other goods or supplying other services. The most obvious expense items are industrial goods used directly in the production process (for example, bulkloads of tea processed into tea bags).

2. **Capital items** are permanent (expensive and long-lasting) goods and services. They have expected lives of more than a year and, typically, of several years. Buildings (offices, factories), fixed equipment (water towers, baking ovens), and accessory equipment (computers, airplanes) are capital goods. Capital services are those for which long-term commitments are made, such as building and equipment maintenance or legal
services. Because capital items are expensive and purchased infrequently, they often involve decisions by high-level managers.

THE PRODUCT MIX

The group of products that a company makes available for sale, whether consumer, industrial, or both, is its product mix. Black & Decker, for example, makes toasters, vacuum cleaners, electric drills, and a variety of other appliances and tools. 3M makes everything from Post-it Notes to laser optics.

Product Lines Many companies, such as a simple coffee shop for sit-down or takeout, begin with a single product. Over time, they find that the initial product fails to suit every consumer shopping for the product type. To meet market demand, they introduce similar products—such as flavored coffees and various roasts—designed to reach more coffee drinkers. For example, Starbucks stores expanded the line of coffees by adding various Italian-style espresso beverages that include mochas, cappuccinos, and lattes—hot and iced—and flavored blended cremes. A group of products that are closely related because they function in a similar manner (e.g., flavored coffees) or are sold to the same customer group (e.g., stop-in coffee drinkers) who will use them in similar ways is a product line.

Companies may extend their horizons and identify opportunities outside existing product lines. The result—multiple (or diversified) product lines—is evident at Starbucks. Beyond just serving beverages to customers at coffee bars, Starbucks has a line of home-brewing equipment (grinders, presses, espresso machines, coffeemakers, and bar blenders), a line of Starbucks supermarket products (premium ice creams, coffee liqueur, bottled frappucino, canned espresso, and packaged coffees), music products (in-store CD sales and Starbucks Hear Music on XM Satellite Radio), and a line of industry services (office service including brewing equipment and bags of coffee). Multiple product lines allow a company to grow rapidly and can help to offset the consequences of slow sales in any one product line.

DEVELOPING NEW PRODUCTS

To expand or diversify product lines—in fact, just to survive—firms must develop and introduce streams of new products. Faced with competition and shifting consumer preferences, no firm can count on a single successful product to carry it forever. Even products that have been popular for decades need constant renewal. Consider one of America’s most-used books: Webster’s New World College Dictionary. Published for more than 50 years, this popular reference book requires periodic renewal. The latest edition, for example, was updated with 7,000 new entries plus new uses and meanings for existing words to reflect technological innovation, language changes, and new pronunciations.

In this section, we focus on the process by which companies develop new goods and services.

THE NEW PRODUCT DEVELOPMENT PROCESS

Over the past five years, the demand for food and beverage ingredients has grown more than 4 percent per year, reaching more than $5 billion annually. Flavors and flavor enhancers are the biggest part of that growth, especially artificial sweeteners. However, companies that develop and sell these products face a big problem: It costs between $30
SPEED TO MARKET

strategy of introducing new products to respond quickly to customer or market changes

At Equity Marketing, engineers like Mark Barbato and Frank Kautzman used to design toys by sculpting models out of clay. Now they use "rapid prototyping," a technology that allows several employees to work simultaneously on 3D "models" that can then be e-mailed to clients for instant review. It now takes five days instead of three weeks to make an initial sculpture.

million and $50 million and can take as long as 8 to 10 years to get a new product through the approval process at the Food and Drug Administration (FDA).

Testing, both for FDA approval and for marketing, can be the most time-consuming stage of development. For example, Acesulfame K beverage sweetener, which is made by Hoechst Celanese, has been through more than 90 safety studies and a thousand technical studies to see how it performs in various kinds of beverages. Thus, cashing in on the growth of the food- and beverage-ingredients market requires an immense amount of time, patience, and money.

Product development is a long and expensive process, and like Hoechst Celanese, many firms have research and development (R&D) departments for exploring new product possibilities. Why do they devote so many resources to exploring product possibilities, rejecting many seemingly good ideas along the way? First, high mortality rates for new ideas mean that only a few new products reach the market. Second, for many companies, speed to market with a product is as important as care in developing it.

Product Mortality Rates

It is estimated that it takes 50 new product ideas to generate one product that finally reaches the market. Even then, only a few of these survivors become successful products. Many seemingly great ideas have failed as products. Creating a successful new product has become increasingly difficult—even for the most experienced marketers. Why? The number of new products hitting the market each year has increased dramatically: More than 25,000 new household, grocery, and drugstore items are introduced annually. In just one recent year, the beverage industry alone launched 1,500 new products with 3,200 packaging variations. At any given time, however, the average supermarket carries a total of only 20,000 to 25,000 different items. Because of lack of space and customer demand, about 9 out of 10 new products will fail. Those with the best chances are innovative and deliver unique benefits.

Speed to Market

The more rapidly a product moves from the laboratory to the marketplace, the more likely it is to survive. By introducing new products ahead of competitors, companies establish market leadership. They become entrenched in the market before being challenged by newer competitors. How important is speed to market—that is, a firm's success in responding to customer demand or market changes? One study reports that a product that is only three months late to market (three months behind the leader) loses 12 percent of its lifetime profit potential. At six months, it will lose 33 percent.
THE PRODUCT LIFE CYCLE

When a product reaches the market, it enters the product life cycle (PLC): A series of stages through which it passes during its commercial life. Depending on the product’s ability to attract and keep customers, its PLC may be a matter of months, years, or decades. Strong, mature products (such as Clorox bleach and H&R Block tax preparation) have had long productive lives.

Stages in the PLC The life cycle for both goods and services is a natural process in which products are born, grow in stature, mature, and finally decline and die. Look at the two graphics in Figure 11.4. In Figure 11.4(a), the four phases of the PLC are applied to several products with which you are familiar:

1. **Introduction.** This stage begins when the product reaches the marketplace. Marketers focus on making potential consumers aware of the product and its benefits. Extensive promotional and development costs erase all profits.

2. **Growth.** If the new product attracts enough consumers, sales start to climb rapidly. The product starts to show a profit, and other firms move rapidly to introduce their own versions.

**Figure 11.4**
Products in the Life Cycle: Stages, Sales, Cost, and Profit
3 Maturity. Sales growth starts to slow. Although the product earns its highest profit level early in this stage, increased competition eventually forces price cutting and lower profits. Toward the end of the stage, sales start to fall.
4 Decline. Sales and profits continue to fall, as new products in the introduction stage take away sales. Firms end or reduce promotional support (ads and salespeople) but may let the product linger to provide some profits.

Figure 11.4(b) plots the relationship of the PLC to a product’s typical sales, costs, and profits (losses). Although the early stages of the PLC often show financial losses, increased sales for successful products recover earlier losses and continue to generate profits until the decline stage. For most products, profitable life spans are short—thus, the importance placed by so many firms on the constant replenishment of product lines.

IDENTIFYING PRODUCTS

As we noted earlier, developing a product’s features is only part of a marketer’s job. Marketers must also identify products so that consumers recognize them. Two important tools for this task are branding and packaging.

BRANDING PRODUCTS

Coca-Cola is the best-known brand in the world. Some Coke executives claim that if all the company’s other assets were obliterated, they could go to the bank and borrow $100 billion on the strength of the brand name alone. Brand names, such as Coca-Cola, and emblems, such as the McDonald’s golden arches, are symbols that characterize products and distinguish them from one another. Branding is a process of using symbols to communicate the qualities of a particular product made by a particular producer. Brands are designed to signal uniform quality: Customers who try and like a product can return to it by remembering its name or its logo.

Several benefits result from successful branding, including brand loyalty (which we discussed earlier in this chapter) and brand awareness—the brand name that first comes to mind when you consider a particular product category. What company, for example, comes to mind when you need to ship a document a long way on short notice? For many people, FedEx has the necessary brand awareness.

Gaining Brand Awareness The expensive, sometimes fierce struggle for brand recognition is perhaps nowhere more evident than in branding battles among dot-com firms. Collectively, the top Internet brands—Google, America Online, Yahoo!, eBay, and Amazon.com—spend billions a year, even though only Google (ranked thirty-eighth) has cracked the ranks of the top 50 global brands. Moreover, the mounting costs of establishing a brand identity mean that many more would-be e-businesses will probably fail.

With its growing importance in nearly every industry, marketers are finding more effective, less expensive ways for gaining brand awareness. Recent successes have been found with two methods: product placements and viral marketing.

Product Placements Television commercials can be a real turnoff for many viewers, but when entertainment programming returns, it gets our full attention. And that’s when marketers are turning up the promotional juice with product placements—a promotional tactic for brand exposure in which characters in television, film, music, magazines, or video games use a real product that is visible to viewers. Television placements are
Viral Marketing Another method for increasing brand awareness is **viral marketing**, which relies on word-of-mouth and the Internet to spread information like a “virus” from person to person about products and ideas. Messages about new cars, sports events, and numerous other goods and services flow via the Internet among potential customers who pass the information on to others. Using various formats—games, contests, chat rooms, and bulletin boards—marketers encourage potential customers to try out products and tell other people about them.¹⁴

How effective can it be? Viral marketing can lead to consumer awareness faster and with wider reach than traditional media messages—and at a lower cost. It works for two reasons. First, people rely on the Internet for information that they used to get from newspapers, magazines, and television. Equally important, however, is the interactive element: The customer becomes a participant in the process of spreading the word by forwarding information to other Internet users. For instance, the Organic Trade Association probably got more than it bargained for in choosing viral marketing to raise awareness about organic foods. They hired Free Range Studios to make a parody movie based on *Star Wars: Episode III—Revenge of the Sith*, for release on the Internet just six hours before the real movie’s debut in theaters. The result was *Grocery Store Wars*, starring the endearing puppet adventures of Tofu-D2, Chewbroccoli, Cuke Skywalker, and ObiWan Cannoli. It was a landslide hit for gaining exposure: More than 8 million viewers visited [www.storewars.org](http://www.storewars.org) to be entertained about organic foods and, as word spread about the film’s clever characters and humor, millions more were attracted by additional coverage on CNN and in *USA Today*.¹⁵

**Types of Brand Names** Just about every product has a brand name. Generally, different types of brand names—national, licensed, or private—increase buyers’ awareness of the nature and quality of competing products. When consumers are satisfied with a product, marketers try to build brand loyalty among the largest possible segment of repeat buyers.

**National Brands** **National brands** are produced by, widely distributed by, and carry the name of the manufacturer. These brands (for example, Scotch tape or Scope mouthwash) are often widely recognized by consumers because of national advertising campaigns, and they are, therefore, valuable assets. Because the costs of developing a national brand are high, some companies use a national brand on several related products. P&G now markets Ivory shampoo, capitalizing on the name of its bar soap and dishwashing liquid.

**Licensed Brands** We have become used to companies (and even personalities) selling the rights to put their names on products. These are called **licensed brands**. For example, the popularity of auto racing is generating millions in revenues for the NASCAR brand, which licenses its name on car accessories, ladies and men’s apparel, headsets, and
countless other items with the names of drivers such as Martin, Johnson, Stewart, and Edwards. Harley-Davidson’s famous logo—emblazoned on boots, eyewear, gloves, purses, lighters, and watches—brings the motorcycle maker more than $210 million annually. Along with brands such as Coors and Ferrari, licensing for character-based brands—Punisher, Spiderman, Chicken Little—are equally lucrative. Marketers exploit brands because of their public appeal—the image and status that consumers hope to gain by associating with them.

**Private Brands** When a wholesaler or retailer develops a brand name and has a manufacturer put it on a product, the resulting name is a private brand (or private label). Sears, which carries such lines as Craftsman tools, Canyon River Blues denim clothing, and Kenmore appliances, is a well-known seller of private brands.

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**PACKAGING PRODUCTS**

With a few exceptions (such as fresh fruits and vegetables and structural steel), products need some form of packaging to reduce the risk of damage, breakage, or spoilage, and to increase the difficulty of stealing small products. A package also serves as an in-store advertisement that makes the product attractive, displays the brand name, and identifies features and benefits. Advances in materials have created added uses, too, for packaging. A paper-based material that doubles as a cooking container has made Budget Gourmet dinners a low-cost entry in the dinner-entrée market. No-drip bottles have enhanced sales of Clorox bleach.

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**THE INTERNATIONAL MARKETING MIX**

Marketing internationally means mounting a strategy to support global business operations. Foreign customers, for example, differ from domestic buyers in language, customs, business practices, and consumer behavior. If they go global, marketers must reconsider each element of the marketing mix—product, pricing, place, and promotion.
service). Supply is the willingness and ability of producers to offer a good or service for sale. Generally speaking, demand and supply follow basic laws:

- The law of demand: Buyers will purchase (demand) more of a product as its price drops and less as its price increases.
- The law of supply: Producers will offer (supply) more of a product for sale as its price rises and less of a product as its price drops.

**The Demand and Supply Schedule** To appreciate these laws in action, consider the market for pizza in your town (or neighborhood). If everyone is willing to pay $25 for a pizza (a relatively high price), the town’s only pizzeria will produce a large supply. But if everyone is willing to pay only $5 (a relatively low price), it will make fewer pizzas. Through careful analysis, we can determine how many pizzas will be sold at different prices. These results, called a demand and supply schedule, are obtained from marketing research, historical data, and other studies of the market. Properly applied, they reveal the relationships among different levels of demand and supply at different price levels.

**Demand and Supply Curves** The demand and supply schedule can be used to construct demand and supply curves for pizza in your town. A demand curve shows how many products—in this case, pizzas—will be demanded (bought) at different prices. A supply curve shows how many pizzas will be supplied (baked or offered for sale) at different prices.

Figure 1.2 shows demand and supply curves for pizzas. As you can see, demand increases as price decreases; supply increases as price increases. When demand and supply curves are plotted on the same graph, the point at which they intersect is the market price (also called the equilibrium price)—the price at which the quantity of goods demanded and the quantity of goods supplied are equal. In Figure 1.2, the equilibrium price for pizzas in our example is $10. At this point, the quantity of pizzas demanded and the quantity of pizzas supplied are the same: 1,000 pizzas per week.

**Surpluses and Shortages** What if the pizzeria decides to make some other number of pizzas? For example, what would happen if the owner tried to increase profits by making more pizzas to sell? Or what if the owner wanted to lower overhead, cut back on store hours, and reduce the number of pizzas offered for sale? In either case, the result would be an inefficient use of resources and lower profits. For instance, if the pizzeria supplies 1,200 pizzas and tries to sell them for $10 each, 200 pizzas will not be bought. Our demand schedule shows that only 1,000 pizzas will be demanded at this price. The pizzeria will therefore have a surplus—a situation in which the quantity supplied exceeds the quantity demanded. It will lose the money that it spent making those extra 200 pizzas.

Conversely, if the pizzeria supplies only 800 pizzas, a shortage will result. The quantity demanded will be greater than the quantity supplied. The pizzeria will “lose” the extra profit that it could have made by producing 200 more pizzas. Even though consumers may pay more for pizzas because of the shortage, the pizzeria will still earn lower total profits than if it had made 1,000 pizzas. It will also risk angering customers who cannot buy pizzas and encourage other entrepreneurs to set up competing pizzerias to satisfy unmet demand. Businesses should seek the ideal combination of price charged and quantity supplied so as to maximize profits, maintain goodwill among customers, and discourage competition. This ideal combination is found at the equilibrium point.

Our example involves only one company, one product, and a few buyers. The U.S. economy—indeed, any market economy—is far more complex. Thousands of companies sell hundreds of thousands of products to millions of buyers every day. In the end, however, the result is much the same: Companies try to supply the quantity and selection of goods that will earn them the largest profits.
RESPONSIBILITY TOWARD EMPLOYEES

In Chapter 10, we show how a number of human resource management activities are essential to a smoothly functioning business. These activities—recruiting, hiring, training, promoting, and compensating—are also the basis for social responsibility toward employees.

Legal and Social Commitments Socially responsible behavior toward employees has both legal and social components. By law, businesses cannot practice numerous forms of illegal discrimination against people in any facet of the employment relationship. For example, a company cannot refuse to hire someone because of ethnicity or pay someone a lower salary than someone else on the basis of gender. Such actions must be taken for job-related purposes only. A company that provides its employees with equal opportunities for rewards and advancement without regard to race, sex, or other irrelevant factors is meeting both its legal and its social responsibilities. Firms that ignore these responsibilities run the risk of losing productive, highly motivated employees. They also leave themselves open to lawsuits.

In the opinion of many people, however, social responsibility toward employees goes beyond equal opportunity. According to popular opinion, an organization should strive to ensure that the workplace is physically and socially safe. It should also recognize its obligations to help protect the health of its employees by providing opportunities to balance work and life pressures and preferences. From this point of view, social responsibility toward workers would also include helping them maintain proper job skills and, when terminations or layoffs are necessary, treating them with respect and compassion.

Ethical Commitments: The Special Case of Whistle-Blowers Respecting employees as people also means respecting their behavior as ethically responsible individuals. Suppose, for instance, an employee discovers that a business has been engaging in practices that are illegal, unethical, or socially irresponsible. Ideally, this employee should be able to report the problem to higher-level management, confident that managers will stop the questionable practices. Enron’s Sherron Watkins reported concerns about the company’s accounting practices well before the company’s problems were made public, warning top management that Enron would “implode in a wave of accounting scandals.” CEO
Kenneth Lay commissioned a legal review of the firm’s finances but told his investigators not to “second-guess” decisions by Enron’s auditor, accounting firm Arthur Andersen.\(^{18}\)

Too often, people who try to act ethically on the job find themselves in trouble with their employers. If no one in the organization will take action, the employee might elect to drop the matter. Occasionally, however, the individual will inform a regulatory agency or perhaps the media. At this point, he or she becomes a **whistle-blower**—an employee who discovers and tries to put an end to a company’s unethical, illegal, or socially irresponsible actions by publicizing them.\(^{19}\) The 1999 Al Pacino–Russell Crowe movie *The Insider* told the true story of a tobacco-industry whistle-blower named Jeffrey Wigand.

Unfortunately, whistle-blowers are sometimes demoted—and even fired—when they take their accusations public. Jeffrey Wigand was fired. “I went from making $300,000 a year,” he reports, “plus stock options, plus, plus, plus—to making $30,000. Yes, there is a price I’ve paid.” Even if they retain their jobs, they may still be treated as outsiders and suffer resentment or hostility from coworkers. Many coworkers see whistle-blowers as people who simply can’t be trusted. One recent study suggests that about half of all whistle-blowers eventually get fired, and about half of those who get fired subsequently lose their homes and/or families.\(^{20}\)

The law does offer some recourse to employees who take action. The current whistle-blower law stems from the False Claims Act of 1863, which was designed to prevent contractors from selling defective supplies to the Union Army during the Civil War. With 1986 revisions to the law, the government can recover triple damages from fraudulent contractors. If the Justice Department does not intervene, a whistle-blower can proceed with a civil suit. In that case, the whistle-blower receives 25 to 30 percent of any money recovered.\(^{21}\)

When Phillip Adams worked in the computer industry, he discovered a flaw in the chip-making process that, under certain circumstances, could lead to data being randomly deleted or altered. He reported the flaw to manufacturers, but several years later, he found that one company, Toshiba, had ignored the problem and continued to make flawed chips for 12 years. He went on to report the problem and became actively involved in a class-action lawsuit based heavily on his research. Toshiba eventually agreed to a $2.1 billion settlement. Adams’s share was kept confidential, but he did receive a substantial reward for his efforts. Unfortunately, however, the prospect of large cash rewards has also generated a spate of false or questionable accusations.

### RESPONSIBILITY TOWARD INVESTORS

Because shareholders are the owners of a company, it may sound odd to say that a firm can act irresponsibly toward its investors. But managers can abuse their responsibilities to investors in several ways. As a rule, irresponsible behavior toward shareholders means abuse of a firm’s financial resources. In such cases, the ultimate losers are indeed the shareholder-owners who do not receive their due earnings or dividends. Companies can also act irresponsibly toward shareholder-owners by misrepresenting company resources.

**Improper Financial Management** Occasionally, organizations or their officers are guilty of blatant financial mismanagement—offenses that are unethical but not necessarily illegal. Some firms, for example, have been accused of paying excessive salaries to senior managers, of sending them on extravagant “retreats” to exotic and expensive resorts, and of providing frivolous perks, including ready access to corporate jets, lavish expense accounts, and memberships at plush country clubs.

In such situations, creditors can often do little, and stockholders have few options. Trying to force a management changeover is a difficult process that can drive down stock prices—a penalty that shareholders are usually unwilling to impose on themselves.
**Food for Thought**

Once upon a time, dot-com start-ups were all the rage. One of the highest profiles belonged to WebVan, a firm that sold food on the Internet for home delivery. In 2001, however, WebVan went spectacularly bankrupt—to the tune of $1 billion. Many similar businesses also failed, but a new firm called FreshDirect is building a successful online grocery business by downplaying online and emphasizing grocery. The firm’s motto: “It’s all about the food.”

A few online food sellers have achieved modest success by partnering with traditional groceries. Most of them work through “personal shoppers” who push carts around the store and select purchases to be delivered to customers. This method, unfortunately, is not very efficient and requires the store to charge a 35-percent markup. FreshDirect uses a unique, low-cost business model. For starters, CEO Joe Fedele is a grocery expert who has already founded one thriving traditional store. Fedele likes to say, “This is a company based on food people, not dot-com people.”

At FreshDirect, most of the inventory is purchased directly from suppliers rather than from intermediaries. This strategy not only cuts costs by 25 percent but also increases freshness. (FreshDirect is capitalizing on changing consumer tastes: In 1970, 30 percent of food dollars were spent on fresh—not packaged—food; now 70 percent is spent on fresh food.) The firm doesn’t own a store. Instead, it’s located in a state-of-the-art 300,000-square-foot warehouse on Long Island, near Manhattan. FreshDirect offers baked goods, prepared meals, fresh pasta, deli salads, and more, all prepared by chefs trained at top restaurants. The company delivers to 22 zip codes, all in Manhattan, Queens, and Long Island, and to “depots” set up at large corporations, where employees can get groceries delivered at the end of the day. The delivery charge is a flat $3.95, the minimum order is $40, and there is no tipping. Deliveries are scheduled only for evening and weekend hours, when Manhattan traffic is lighter. All these policies allow FreshDirect to offer unique and tempting goods for a lower price than the corner market, plus the convenience of home delivery.

Information technology is integrated throughout the Long Island warehouse, with nine climate-controlled rooms providing optimal conditions for everything from avocados to smoked salmon. Equipment is linked to controls in a central room, where alarms sound if a conveyer belt stops or a freezer warms up. To ensure food safety, the entire plant is automatically hosed down nightly with antiseptic foam and then sprayed with an antibacterial coating.

In its most ambitious move yet, FreshDirect has asked each of its chefs to develop recipes to be programmed by artificial intelligence software. If, during the preparation process, an ingredient’s barcode readout, electronic-scale reading, or computer-controlled oven setting is not correct, the equipment shuts down. Because this practice ensures that hourly workers follow recipes exactly, FreshDirect controls quality while using less-expensive labor.

Some users have reported problems—overripe grapes, mixed-up deliveries. Some people worry about the lack of direct contact, especially those who want to sniff the melons or squeeze the bread. A few cite online commerce in general when bemoaning the impersonal nature of contemporary society. Most shoppers, however, seem to find online grocery shopping a liberating experience.

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**Table 3.1: Comparative Summary: Three Forms of Business**

<table>
<thead>
<tr>
<th>Business Form</th>
<th>Liability</th>
<th>Continuity</th>
<th>Management</th>
<th>Sources of Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proprietorship</td>
<td>Personal, unlimited</td>
<td>Ends with death or decision of owner</td>
<td>Personal, unrestricted</td>
<td>Personal</td>
</tr>
<tr>
<td>General Partnership</td>
<td>Personal, unlimited</td>
<td>Ends with death or decision of any partner</td>
<td>Unrestricted or depends on partnership agreement</td>
<td>Personal by partner(s)</td>
</tr>
<tr>
<td>Corporation</td>
<td>Capital invested</td>
<td>As stated in charter, perpetual or for specified period of years</td>
<td>Under control of board of directors, which is selected by stockholders</td>
<td>Purchase of stock</td>
</tr>
</tbody>
</table>
Want a MacBrioche with That MacEspresso?

McDonald’s has become an international icon of the fast-food industry. With 30,000 restaurants in over 100 countries, the golden arches have become synonymous with American culture. Yet in recent years, McDonald’s seems to have lost its competitive edge both at home and abroad. In the United States, for example, its stores are outdated and its customer service skills seem to be slipping. Moreover, concerns about health (as dramatized in the recent documentary Supersize Me) have driven many customers away from Big Macs and French fries. McDonald’s no longer leads in technology, with rivals inventing new processing and cooking technologies. The firm’s traditional markets, children and young men, are spending less on food while markets McDonald’s doesn’t target, notably women and older consumers, spend more. Profits have dropped and Starbucks has replaced McDonald’s as the food industry’s success story.

To grow, McDonald’s has had to expand aggressively into foreign markets, especially in Europe and Asia. However, consumers in many of those countries do not always like McDonald’s “Americanized” look and products. So the burger maker has had to cater to local tastes. That means serving brioche and espresso in France, salmon sandwiches in Scandinavia, and beer in Germany. McDonald’s is also customizing the look of its stores. In France, for example, some stores have ski-chalet décor—hardwood floors, televisions, and armchairs—while others feature 1950s-style booths with their own CD players.

So far, the new menu items and appearance are paying off. U.S. sales continue their downward trend, but French sales increased after the makeover. Ken Clement, a franchisee and former McDonald’s vice president, claims the changes are not necessary in the United States. “People are not coming in to swoon over the décor,” he says. “They are coming in and getting out of here. They don’t give a rip what is inside.” However, if the French market continues to improve, the innovations may make it to the United States, where the risk and the return could be great. The change could alienate McDonald’s traditional customers or it could revitalize the firm and spark a renaissance for the entire fast-food industry.

say that agricultural productivity has increased because we have been able to increase total output in the agricultural sector.

We can apply the same concepts to a nation’s economic system, although the computations are more complex. A fundamental question is: How do we know whether an economic system is growing or not? Experts call the pattern of short-term ups and downs (or, better, expansions and contractions) in an economy the business cycle. The primary measure of growth in the business cycle is aggregate output: the total quantity of goods and services produced by an economic system during a given period.4

To put it simply, an increase in aggregate output is growth (or economic growth). When output grows more quickly than the population, two things usually follow: Output per capita—the quantity of goods and services per person—goes up, and the system provides more of the goods and services that people want. And when these two things occur, people living in an economic system benefit from a higher standard of living, which refers to the total quantity and quality of goods and services that they can purchase with the currency used in their economic system.

Among other things, growth makes possible higher standards of living. In order to know how much your standard of living is improving, you need to know how much your nation’s economic system is growing. Let’s start to address this question by considering the data in Table 1.2.