Principles of Marketing

An Asian Perspective

Fourth Edition

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Pearson

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About the Authors

PHILIP KOTLER is S.C. Johnson & Son Distinguished Professor of International Marketing at the Kellogg School of Management, Northwestern University. He received his master's degree at the University of Chicago and his PhD at M.I.T., both in economics. Dr. Kotler is the author of Marketing Management (Pearson), now in its fifteenth edition and the most widely used marketing textbook in graduate schools of business worldwide. He has authored dozens of other successful books and has written more than 100 articles in leading journals. He is the only three-time winner of the coveted Alpha Kappa Psi award for the best annual article in the Journal of Marketing.

Professor Kotler was named the first recipient of four major awards: the Distinguished Marketing Educator of the Year Award and the William L. Wilkie "Marketing for a Better World" Award, both given by the American Marketing Association; the Philip Kotler Award for Excellence in Health Care Marketing presented by the Academy for Health Care Services Marketing; and the Sheth Foundation Medal for Exceptional Contribution to Marketing Scholarship and Practice. His numerous other major honors include the Sales and Marketing Executives International Marketing Educator of the Year Award; The European Association of Marketing Consultants and Trainers Marketing Excellence Award; the Charles Coolidge Parlin Marketing Research Award; and the Paul D. Converse Award, given by the American Marketing Association to honor "outstanding contributions to science in marketing." A recent Forbes survey ranks Professor Kotler in the top 10 of the world's most influential business thinkers. And in a recent Financial Times poll of 1,000 senior executives across the world, Professor Kotler was ranked as the fourth "most influential business writer/guru" of the twenty-first century.

Dr. Kotler has served as chairman of the College on Marketing of the Institute of Management Sciences, a director of the American Marketing Association, and a trustee of the Marketing Science Institute. He has consulted with many major U.S. and international companies in the areas of marketing strategy and planning, marketing organization, and international marketing. He has traveled and lectured extensively throughout Europe, Asia, and South America, advising companies and governments about global marketing practices and opportunities.

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But Professor Armstrong's first love is teaching. His long-held Blackwell Distinguished Professorship is the only permanent endowed professorship for distinguished undergraduate teaching at the University of North Carolina at Chapel Hill. He has been very active in the teaching and administration of Kenan-Flagler's undergraduate program. His administrative posts have included Chair of Marketing, Associate Director of the Undergraduate Business Program, Director of the Business Honors Program, and many others. Through the years, he has worked closely with business student groups and has received several UNC campuswide and Business School teaching awards. He is the only repeat recipient of the school's highly regarded Award for Excellence in Undergraduate Teaching, which he has received three times. Most recently, Professor Armstrong received the UNC Board of Governors Award for Excellence in Teaching, the highest teaching honor bestowed by the sixteen-campus University of North Carolina system.

SWEE HOON ANG is an Associate Professor at the National University of Singapore (NUS) Business School. She received her PhD from the University of British Columbia. She was Visiting Professor at the University of California, Berkeley, Aalto University (then Helsinki School of Economics and Business Administration), and the China-Europe International Business School. She excels as an educator as evident by her receiving the university's Teaching Excellence Awards thrice consecutively, putting her on the Honor Roll. Her sharing of knowledge has seen her undertake several consultancy projects and executive education seminars, some of which involved service quality evaluation, customer profiling, and feasibility studies. Her clients include Caterpillar, Citibank, Glaxo- Wellcome Pharmaceuticals, Johnson & Johnson Medical, Ministry of Health, Singapore Arts Center, Singapore Pools, and Wipro-Unza. Professor Ang is also co-author of Marketing Management: An Asian Perspective. She has published in *Journal of Advertising, Journal of Cross-Cultural Psychology, Marketing Letters, and Social Indicators*.

CHIN TIONG TAN is a Professor in Marketing and Senior Advisor to the President of the Singapore Management University. He was the founding Provost of Singapore Management University and the founding President of Singapore Institute of Technology. Professor Tan received his PhD in Business from the Pennsylvania State University. He had taught in various programs globally over the years and was a Visiting Scholar at the Stanford Business School. He has published in *Journal of Consumer Research, Journal of International Business Studies, Journal of Business and Industrial Marketing, International Marketing Review, European Journal of Marketing*, and other international journals and conference proceedings. Professor Tan is also the co-author of Marketing Management: An Asian Perspective, New Asian Emperors: The Business Strategies Of the Overseas Chinese, The Chinese Tao of Business: The Logic of Successful Business Strategy, and Strategic Marketing Cases for 21st Century Asia. He was on the board of Citibank Singapore Ltd and other publicly listed companies in Singapore.

OLIVER HON-MING YAU is Chair Professor Emeritus of Marketing and Director of the Unit for Chinese Management Development, Faculty of Business at the City University of Hong Kong (CityU). He holds an International Teacher's Certificate from CESA (now HEC), France, and a Ph.D. degree in marketing from the Management Centre, Bradford University, England.

He has held teaching and research positions in four continents, including South America, Australia, Europe and Asia. Before he joined CityU, he was with the Chinese University of Hong Kong, University of Queensland, and the University of Southern Queensland, Australia. He was appointed as a visiting or consulting professor by more than 10 major universities in Mainland China, Australia, Taiwan, and England.

He has published over 200 articles in refereed international journals and conferences, including the *Journal of International Business Studies*, *Journal of International Marketing*, *Journal of Business Ethics*, *Journal of Business Research*, and the *European Journal of Marketing*. He has also published more than 60 books in both Chinese and English. Being a renowned consultant in services and marketing research, he has assisted over 50 companies in various countries by conducting surveys and providing consulting and training services.

He is now a member of the editorial board for more than 10 international journals. He was the Chairman of the Southeast Asia Region of the Academy of International Business (AIBSEAR) and Honorary President of the Hong Kong Institute of Marketing. Currently, he is the advisor of the Hong Kong Professional Validation Council of Hong Kong Industries, and also an adviser of the Academy of Chinese Marketing.

SIEW MENG LEONG (1956-2013) was a Professor at the National University of Singapore (NUS) Business School. He received his MBA and PhD from the University of Wisconsin, Madison. A prolific researcher, he had been published in the Journal of Consumer Research, *Journal of Marketing, Journal of Marketing Research, Journal of International Business Studies, Marketing Letters*, and other international journals. Always a consummate educator, he showed tenacity and dedication to his students while battling cancer by continuing to share his knowledge in his usual witty manner till two weeks before his passing. We at Pearson appreciate his professionalism, good nature, and collaboration. He will be missed.

Brief Contents

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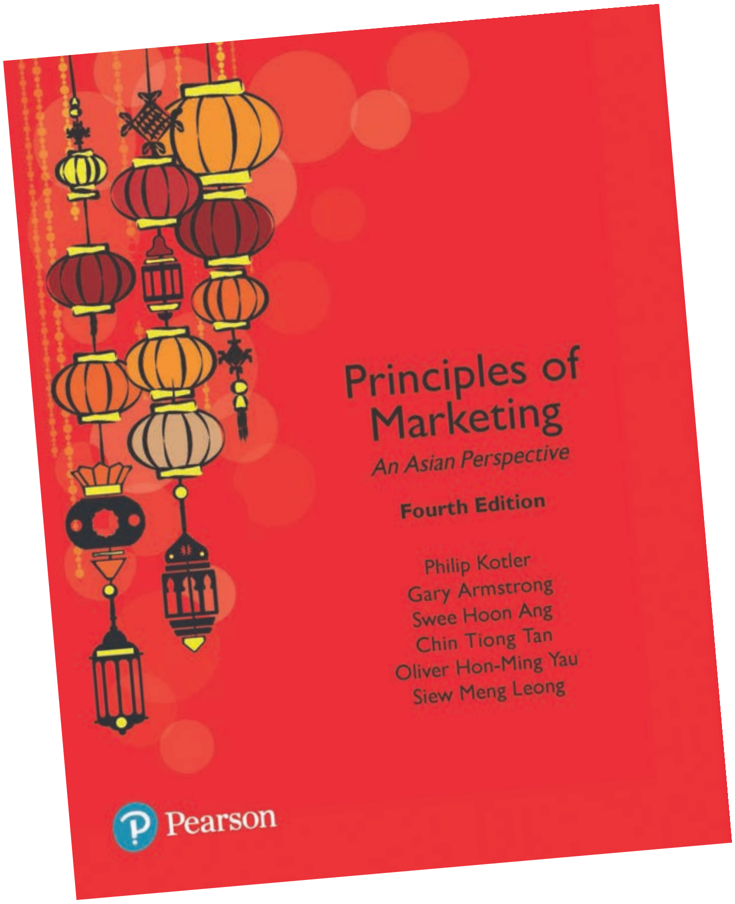
About the Book



A good mix of Asian and international cases and vignettes to give your students a stronger understanding of global marketing, with an Asian focus.

An enhanced learning designed to make learning more efficient.

Added coverage on contemporary marketing issues with new and updated material.

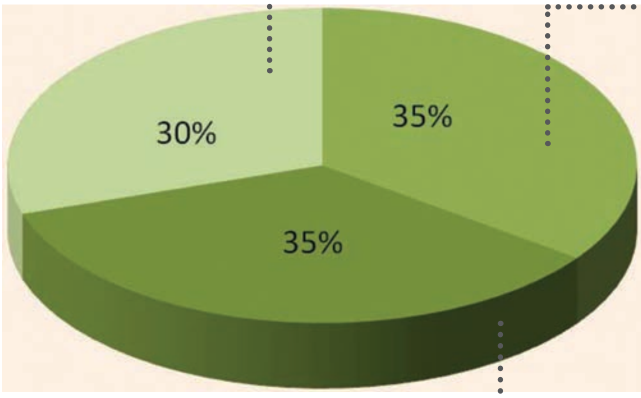
An improved instructor's resources to help you with your lesson planning and preparation.

Marketing with a Focus on Asia: An Enhanced Learning Design

The cases and examples in *Principles of Marketing*: *An Asian Perspective* are carefully selected to give students a comprehensive understanding of marketing in today's globally connected world.

International Brands in an International Context

- Dyson: Solving Customer Problems in Ways They Never Imagined
- Cisco Systems: Solving Business Problems Through Collaboration
- Pepsi: Marketing Insight and "Live for Now" and more…



Asian Brands in an International Context

- Daiso: Cost Effective Approach
- Sony: Battling the Marketing Environment's "Perfect Storm"
- Lexus: Delighting Customers After the Sale to Keep Them Coming Back and more…

International Brands in an Asian Context

- Hindustan Unilever: Skincare Products for Men
- How KFC Adapts to Chinese Culture
- Tata Group, India: Doing Business with a Heart and more…

These cases and examples are presented in each chapter as one of the following:

1 Opening Cases

These opening cases set the stage for each chapter and use examples of well-known brands that your students can identify with in order to ease them into the topic.

2 Real Marketing

These sections furnish more detailed insights for a taste of the real world of marketing that highlight marketing practices and thought leadership around the world.

3 Company Cases

Wrap up the chapter effectively with Company Cases. These in-depth studies, together with the engaging discussion questions at the end of the case, hone students' critical thinking through applying marketing principles to real companies in real situations.

4 Vignettes

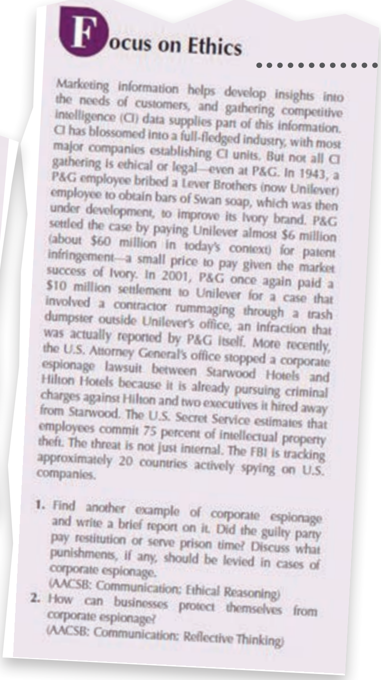
Help your students stay current in the world of marketing. These in-text vignettes present students with up-to-date perspectives in contemporary marketing.

5 Focus on Technology

Enable your students to better harness emerging marketing technologies of this digital age. These application exercises provide students with valuable discussion on the development and effective use of these technologies

Focus on Technology

Picture yourself with wires hooked up to your head or entering a magnetic tube that can see inside your brain. You must be undergoing some medical test, right? Think again—it's marketing research! Marketing research is becoming more like science fiction with a new field called neuromarketing, which uses technologies such as magnetic resonance imaging (MRI) to peer into consumers' brains in an attempt to understand cognitive and affective responses to marketing stimuli. One company, Thinkingcraft, uses a methodology called "neurographix" to help marketers develop messages that fit the way customers think. Omnicon, the advertising agency, uses "neuroplanning" to determine the appropriate media mix for a client. One study found that consumers preferred Pepsi over Coke in blind taste tests but preferred Coke when they could see the names of the brands tasted. Different areas of the brain were activated when they knew the brand compared to when they did not, suggesting that what marketers make us believe is more persuasive than what our own taste buds tell us.



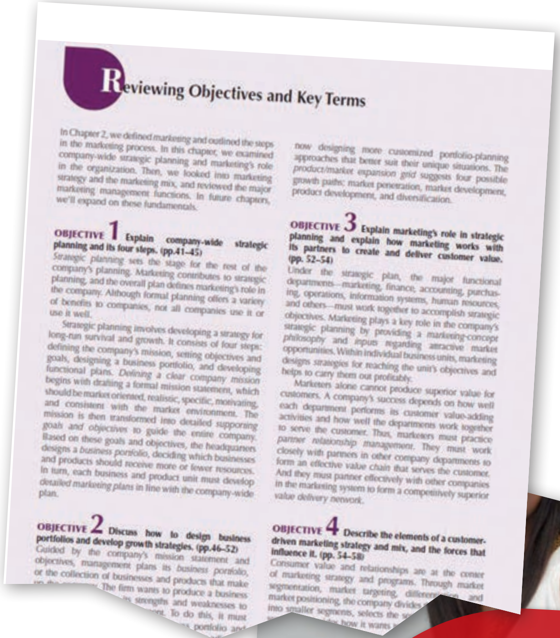
Focus on Ethics

Marketing information helps develop insights into the needs of customers, and gathering competitive intelligence (CI) data supplies part of this information. CI has blossomed into a full-fledged industry, with most major companies establishing CI units. But not all CI gathering is ethical or legal—even at P&G. In 1943, a P&G employee bribed a Lever Brothers (now Unilever) employee to obtain bars of Swan soap, which was then under development, to improve its Ivory brand. P&G settled the case by paying Unilever almost $6 million (about $60 million in today's context) for patent infringement—a small price to pay given the market success of Ivory. In 2001, P&G once again paid a $10 million settlement to Unilever for a case that involved a contractor rummaging through a trash dumpster outside Unilever's office, an infraction that was actually reported by P&G itself. More recently, the U.S. Attorney General's office stopped a corporate espionage lawsuit between Starwood Hotels and Hilton Hotels because it is already pursuing criminal charges against Hilton and two executives it hired away from Starwood. The U.S. Secret Service estimates that employees commit 75 percent of intellectual property theft. The threat is not just internal. The FBI is tracking approximately 20 countries actively spying on U.S. companies.

1. Find another example of corporate espionage and write a brief report on it. Did the guilty party pay restitution or serve prison time? Discuss what punishments, if any, should be levied in cases of corporate espionage.
(AACSB: Communication; Ethical Reasoning)
2. How can businesses protect themselves from corporate espionage?
(AACSB: Communication; Reflective Thinking)

6 Focus on Ethics

It's not easy being a marketer with good morals. Equip your students with the mindset to deal with ethical challenges and dilemmas by exploring these difficult issues through the use of situational descriptions and analysis. Questions are provided to guide students in their quest for what's right or wrong.



Reviewing Objectives and Key Terms

In Chapter 2, we defined marketing and outlined the steps in the marketing process. In this chapter, we examined company-wide strategic planning and marketing's role in the organization. Then, we looked into marketing strategy and the marketing mix, and reviewed the major marketing management functions. In future chapters, we'll expand on these fundamentals.

OBJECTIVE 1 Explain company-wide strategic planning and its four steps. (pp.41–45)
Strategic planning sets the stage for the rest of the company's planning. Marketing contributes to strategic planning, and the overall plan defines marketing's role in the company. Although formal planning offers a variety of benefits to companies, not all companies use it or use it well.

Strategic planning involves developing a strategy for long-run survival and growth. It consists of four steps: defining the company's mission, setting objectives and goals, designing a business portfolio, and developing functional plans. *Defining a clear company mission* begins with drafting a formal mission statement, which should be market oriented, realistic, specific, motivating, and consistent with the market environment. The mission is then transformed into detailed *supporting goals and objectives* to guide the entire company. Based on these goals and objectives, the headquarters designs a *business portfolio*, deciding which businesses and products should receive more or fewer resources. In turn, each business and product unit must develop *detailed marketing plans* in line with the company-wide plan.

OBJECTIVE 2 Discuss how to design business portfolios and develop growth strategies. (pp.46–52)
Guided by the company's mission statement and objectives, management plans its *business portfolio*, or the collection of businesses and products that make ... The firm wants to produce a business ... its strengths and weaknesses to ... To do this, it must ... portfolio and ...

now designing more customized portfolio-planning approaches that better suit their unique situations. The *product/market expansion grid* suggests four possible growth paths: market penetration, market development, product development, and diversification.

OBJECTIVE 3 Explain marketing's role in strategic planning and explain how marketing works with its partners to create and deliver customer value. (pp. 52–54)
Under the strategic plan, the major functional departments—marketing, finance, accounting, purchasing, operations, information systems, human resources, and others—must work together to accomplish strategic objectives. Marketing plays a key role in the company's strategic planning by providing a *marketing-concept philosophy* and *inputs* regarding attractive market opportunities. Within individual business units, marketing designs strategies for reaching the unit's objectives and helps to carry them out profitably.

Marketers alone cannot produce superior value for customers. A company's success depends on how well each department performs its customer value-adding activities and how well the departments work together to serve the customer. Thus, marketers must practice *partner relationship management*. They must work closely with partners in other company departments to form an effective value chain that serves the customer. And they must partner effectively with other companies in the marketing system to form a competitively superior value delivery network.

OBJECTIVE 4 Describe the elements of a customer-driven marketing strategy and mix, and the forces that influence it. (pp. 54–58)
Consumer value and relationships are at the center of marketing strategy and programs. Through market segmentation, market targeting, differentiation, and market positioning, the company divides ... into smaller segments, selects the ... how it wants ...

7 Enhanced-learning design

Break it down and build it back up. These aids reinforce students' understanding of marketing concepts with visual organizers such as spider diagrams and flowcharts that present complicated ideas in simpler, illustrated forms. This helps students to make better sense of what is being covered in each section. Exciting color visuals bring the study of marketing to life and motivate your students to learn.

Preface

Still Creating More Value for You!

The goal of every marketer is to create more value for customers. So it makes sense that our goal for the fourth edition of *Principles of Marketing: An Asian Perspective* is to continue creating more value for you—*our* customer. Specifically, we want to introduce new marketing students the fascinating world of modern marketing in an innovative yet practical and enjoyable way. We've pored over every page, table, figure, fact, and example in an effort to make this the best text yet to learn about and teach marketing. This text provides the fundamental principles and puts them in the context of Asian businesses and contemporary MNCs.

Marketing is much more than just an isolated business function—it is a philosophy that guides the entire organization. The marketing department cannot create customer value and build profitable customer relationships by itself. This is a company-wide undertaking that involves broad decisions about who the company wants as its customers, which needs to satisfy, what products and services to offer, what prices to set, what communications to send, and what partnerships to develop. Marketing must work closely with other company departments and with other organizations throughout its entire value-delivery system to delight customers by creating superior customer value.

Marketing: Creating Customer Value and Relationships

Top marketers at outstanding companies share a common goal: putting the customer at the heart of marketing. Today's marketing is all about creating customer value and building profitable customer relationships. It starts with understanding customer needs and wants, determining which target markets the organization can serve best, and developing a compelling value proposition by which the organization can attract and grow valued consumers. If the organization does these things well, it will reap the rewards in terms of market share, profits, and customer equity.

Five Major Value Themes

From beginning to end, *Principles of Marketing: An Asian Perspective* develops an innovative customer-value and customer-relationships framework that captures the essence of today's marketing. It builds on five major value themes:

- **Creating value for customers to capture value from customers in return.** Asian marketers must be good at creating customer value and managing customer relationships. They must attract targeted customers with strong value propositions. Then, they must keep and grow customers by delivering superior customer value and effectively managing the company-customer interface. Outstanding marketing companies in Asia understand the marketplace and customer needs, design value-creating marketing strategies, develop integrated marketing programs that deliver customer value and delight, and build strong customer relationships. In return, they capture value from customers in the form of sales, profits, and customer loyalty. This *innovative customer-value framework* is introduced at the start of Chapter 1 in a five-step marketing process model, which details how marketing creates customer value and captures value in return. The framework is carefully explained in the first two chapters, providing students with a solid foundation. The framework is then integrated throughout the remainder of the text.
- **Building and managing strong, value-creating brands.** Well-positioned brands with strong brand equity provide the basis upon which to build customer value and profitable customer relationships. Asian marketers must position their brands powerfully and manage them well.
- **Measuring and managing return on marketing.** Marketing managers in Asia must be good at measuring and managing the return on their marketing investments to ensure that their marketing dollars are being well-spent. In the past, many marketers spent freely on big, expensive marketing programs, often without thinking carefully about the financial and customer response returns on their spending. But all that is changing rapidly. Measuring and managing return on marketing investments has become an important part of strategic marketing

decision making. This emphasis on marketing accountability is addressed throughout the third edition.

- **Harnessing new marketing technologies.** New digital and other high-tech marketing developments are dramatically changing how Asian consumers and marketers relate to one another. Marketers in Asia must know how to leverage new computer, information, communication, and distribution technologies to connect more effectively with customers and marketing partners in this digital age. The third edition explores the new technologies impacting marketing including digital marketing and online technologies in Chapters 1, 15, and 17 to the exploding use of online social networks and customer-generated marketing in Chapters 1, 5, 14, 15, 17, and elsewhere.
- **Sustainable marketing around the globe.** As technological developments make the world an increasingly smaller place, Asian marketers must be good at marketing their brands globally and in socially responsible ways that create not just short-term value for individual customers but also long-term value for society as a whole. New materials throughout the third edition emphasizes the concept of sustainable marketing.

New in the Fourth Edition

Principles of Marketing: An Asian Perspective reflects the major trends and forces impacting marketing in this era of customer value and relationships. We've thoroughly revised the text. This new edition builds on and extends the innovative customer-value framework from previous editions. No other marketing text presents such a clear and comprehensive customer-value approach. Here are just some of the major and continuing changes you'll find in this edition:

- Throughout the third edition, you will find revised coverage of the rapidly **changing nature of customer relationships** with companies and brands. Today's marketers aim to create deep consumer involvement and a sense of community surrounding a brand—to make the brand a meaningful part of consumers' conversations and their lives. Today's new relationship-building tools include everything from Web sites, blogs, in-person events and video sharing, to online communities and social networks such as Facebook, YouTube, Twitter, or a company's own social networking sites.
- The third edition contains new material on the continuing trend toward two-way interactions between customers and brands, including such topics as **customer-managed relationships**, **crowdsourcing**, and **consumer-generated marketing**. Today's customers are giving as much as they get in the form of two-way relationships (Chapter 1), a more active role in providing customer insights (Chapter 4), crowdsourcing and shaping new products (Chapter 9), consumer-generated marketing content (Chapters 1, 14, and 15), developing or passing along brand messages (Chapters 1 and 15), interacting in customer communities (Chapters 5, 15, and 17), and other developments.
- New material throughout the third edition highlights the increasing importance of **sustainable marketing**. The discussion begins in Chapter 1 and ends in Chapter 20, which pulls marketing together under a sustainable marketing framework. In between, frequent discussions and examples show how sustainable marketing calls for socially and environmentally responsible actions that meet both the immediate and the future needs of customers, companies, and society as a whole.
- The fourth edition also includes articles from Think Business, an online knowledge portal from the National University of Singapore Business School (www.thinkbusiness.nus.edu) that highlights knowledge from faculty and prominent business leaders.
- The fourth edition continues its emphasis on **measuring and managing return on marketing**, including many new end-of-chapter financial and quantitative marketing exercises that let students apply analytical thinking to relevant concepts in each chapter and link chapter concepts to the text's innovative and comprehensive *Appendix 2: Marketing by the Numbers.*
- The fourth edition provides revised and expanded coverage of the developments in the fast-changing areas of **integrated marketing communications** and **direct and online marketing**. It tells how marketers are blending new digital and direct technologies with traditional media to create more targeted, personal, and interactive customer relationships. No other text provides more current or encompassing coverage of these exciting developments.

- The fourth edition continues to improve on its **innovative learning design**. The text's active and integrative presentation includes learning enhancements such as annotated chapter-opening stories, and a chapter-opening objective outline. The chapter-opening layout helps to preview and position the chapter and its key concepts. End-of-chapter features help to summarize important chapter concepts and highlight important themes, such as marketing and the economy, marketing technology, ethics, and financial marketing analysis. In all, the innovative learning design facilitates student understanding and eases learning.
- The phenomenal success of online market site Taobao.com and Internet site Tencent in China are discussed; so is Li & Fung's supply chain that has expanded in the United States. We've discussed how Japan's UNIQLO's customer-centric approach has seen to its marketing success. Similarly, the likes of Scoot, Xiaomi, Charles & Keith, Daiso, Lenovo, and Gmarket are highlighted.

Principles of Marketing: An Asian Perspective also includes expanded material on a wide range of other topics, including managing customer relationships (CRM), brand strategy and positioning, SWOT analysis, data mining and data networks, consumer research, marketing and diversity, generational marketing, buzz marketing, supplier satisfaction and partnering, environmental sustainability, cause-related marketing, socially responsible marketing, global marketing strategies, and much, much more.

Countless new examples have been added within the running text. Tables, examples, and references throughout the text represent updated facts and figures. *Principles of Marketing: An Asian Perspective* contains mostly new images and advertisements that illustrate key points and make the text more effective and appealing. All new or revised company cases and many new video cases help to bring the real world directly into the classroom. The text even has a new look, with freshly designed figures. We don't think you'll find a fresher, more current, or more approachable text anywhere.

An Emphasis on Real Marketing

Principles of Marketing: An Asian Perspective features in-depth, real-world examples and stories that show concepts in action and reveal the drama of modern marketing. In this edition, chapter-opening cases and Real Marketing highlights have been updated or replaced to provide fresh and relevant insights into actual marketing practices. Learn how:

- Xiaomi scored success in India.
- Charles & Keith adapts its shoes and handbags for foreign markets.
- Tupperware makes Indonesia its No. 1 market.
- Scoot tackles a competitor that imitated its strategy.
- Procter & Gamble understands the psyche of Chinese mothers and convinces them to switch from cloth to disposable diapers for their babies.
- IKEA adapts its products for the Chinese market.

These and countless other examples and illustrations throughout each chapter reinforce key concepts and bring marketing to life.

Valuable Learning Aids

A wealth of chapter-opening, within-chapter, and end-of-chapter learning devices help students to learn, link, and apply major concepts:

- *Previewing the Concepts.* As part of the active and integrative chapter-opening design, a brief section at the beginning of each chapter previews chapter concepts, links them with previous chapter concepts, and introduces the chapter-opening story.
- *Chapter-opening marketing stories*. Each chapter begins with an engaging, deeply developed marketing story that introduces the chapter material and sparks student interest.
- *Objective outline.* This chapter-opening feature provides a helpful preview outline of chapter contents and learning objectives, complete with page numbers.

- *Real Marketing highlights*. In every chapter, these highlights provide an in-depth look at the actual marketing practices of large and small companies.
- *Reviewing the Objectives and Key Terms*. A summary at the end of each chapter reviews major chapter concepts and chapter objectives. Key terms which are highlighted within the text, are clearly defined in the margins of the pages in which they first appear, and listed at the end of each chapter.
- *Discussing the Concepts and Applying the Concepts.* Each chapter contains a set of discussion questions and application exercises covering major chapter concepts.
- *Marketing and the Economy.* End-of-chapter situation descriptions provide for discussion of the impact of recent economic trends on consumer and marketer decisions.
- *Focus on Technology.* Application exercises at the end of each chapter provide discussion on important and emerging marketing technologies in this digital age.
- *Focus on Ethics.* Situation descriptions and questions highlight important issues in marketing ethics at the end of each chapter.
- *Marketing by the Numbers*. An exercise at the end of each chapter lets students apply analytical and financial thinking to relevant chapter concepts and links the chapter to Appendix 2: Marketing by the Numbers.
- *Video Case.* Short vignettes and discussion questions appear at the end of every chapter, to be used with the set of 4- to 7-minute videos that accompany this edition.
- *Company Cases.* All new or revised company cases for class or written discussion are provided at the end of each chapter. These cases challenge students to apply marketing principles to real companies in real situations.
- *Marketing Plan appendix.* Appendix 1 contains a sample marketing plan that helps students to apply important marketing planning concepts.
- *Marketing by the Numbers appendix.* An innovative Appendix 2 introduces students with a comprehensive introduction to the marketing financial analysis that helps to guide, assess, and support marketing decisions.

More than ever before, *Principles of Marketing: An Asian Perspective* creates value for you—it gives you all you need to know about marketing in an effective and enjoyable total learning package!

A Valuable Total Teaching and Learning Package

A successful marketing course requires more than a well-written book. A total package of teaching supplements extends this edition's emphasis on creating value for both the student and instructor. The following aids support *Principles of Marketing: An Asian Perspective*.

Supplements for Instructors

The following supplements are available to adopting instructors.

Instructor's Manual

The Instructor's Manual includes the following features:

- *Resource Map.* This is a "Cheat Sheet" for instructors, correlating all resources by use type and chapter/section.
- *Chapter Overview.* The Chapter Overview summarizes each chapter of the textbook and is consistent with the chapter summary in the book.
- *Chapter Objectives.* Each chapter's objectives are listed as they appear in the textbook.
- *Chapter Outline.* This teaching outline is mapped to the textbook topics and provides a snapshot of the chapter and its resources. The outline integrates references to exhibits and key terms in the book, as well as end-of chapter concepts, Web links, and more!
- *End-of-chapter Answer Guide.* This section includes answers to all end-of-chapter questions in the book. This will include discussion questions, objective-based questions, application questions, as well as case studies.
- *Additional Material.* This section offers barriers to effective learning, suggestions for students projects and assignments (individual and group assigned), as well as outside examples.

- *Web Resources.* This is a list of useful web links and resources the student can use for additional research, support, and career information.
- *Video Case Notes.* This separate section of the Instructor's Manual includes a brief summary, discussion questions (with suggested answers), and other useful information for each segment included in the video library that accompanies the textbook. It also includes teaching ideas on how to present the material in class.

Test Item File

The Test Item File offers 3,000 questions. Each chapter consists of multiple-choice, true/false, short answer, and essay questions. Page references, learning objective, concept versus application, relevant AACSB topic, and difficulty level are provided for each question.

Additionally, the questions are offered in two categories—General Concept and Application. The application questions provide real-life situations that take students beyond basic chapter concepts and vocabulary and ask them to apply their newly learned marketing skills. Available in both Microsoft Word and TestGen formats.

PowerPoint

This version of PowerPoint includes basic outlines and key points from each chapter, plus advertisements and art from the text, discussion questions, and Web links.

Custom Videos

The videos available on the companion Web site (www.pearsoned-asia.com/kotler) library feature 20 exciting segments for this edition. Here are just a few of the videos that are offered:

- Stew Leonard's Customer Relationships
- Eaton's Dependable Customer Service
- GoGurt's Winning Brand Management
- FiberOne's Exponential Growth
- Nestlé Waters' Personal Selling

Image and Ad Bank

Access many of the images and illustrations featured in the text, which are ideal for PowerPoint customization, from the Instructor's Resource Center.

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Objective Outline

OBJECTIVE 1

Define marketing and outline the steps in the marketing process.

What is Marketing? (4–6)

OBJECTIVE 2

Explain the importance of understanding customers and the marketplace and identify the five core marketplace concepts.

Understanding the Marketplace and Customer Needs (6–9)

OBJECTIVE 3

Identify the key elements of a customer-driven marketing strategy and discuss the marketing management orientations that guide marketing strategy.

Designing a Customer-Driven Marketing Strategy (9–14)

Preparing an Integrated Marketing Plan and Program (14–15)

OBJECTIVE 4

Discuss customer relationship management and identify strategies for creating value for customers and capturing value from customers in return.

Building Customer Relationships (15–22)

Capturing Value from Customers (22–24)

OBJECTIVE 5

Describe the major trends and forces that are changing the marketing landscape in this age of relationships.

The Changing Marketing Landscape (24–30)

Chapter 1

Marketing: Managing Profitable Customer Relationships

Previewing the Concepts

Welcome to the exciting world of marketing. In this chapter, we will introduce you to the basic concepts. We'll start with a simple question: What is marketing? Marketing is managing profitable customer relationships. The aim of marketing is to create value for customers and to capture value in return. Chapter 1 is organized around five steps in the marketing process—from understanding customer needs, to designing customer-driven marketing strategies and programs, to building customer relationships and capturing value for the firm.

Let's start with a good story about Taobao, the online shopping site by Alibaba that beat eBay and Amazon in China.

Taobao.com: Building Trustworthy Customer Relationships

While eBay and Amazon may be America's everything stores, in China, Alibaba's retail platform Taobao.com dominates the domestic e-market, leaving Amazon fighting in the sidelines and eBay shutting down its China operations in 2006, having entered and failed to meet the market demands.

Established in May 2003 by the Alibaba Group, Taobao is one of the biggest e-tailing platforms today, and in 2014 it commanded around 80 percent of the Chinese consumer-to-consumer (C2C) market segment. Taobao, which means "hunting for treasure," sells almost everything, from cosmetics and accessories to electronic goods and cadavers. Like Amazon and eBay, it facilitates transactions between individual consumers and sellers including retailers and wholesalers.

Taobao's success was unanticipated. A year before Taobao was established, eBay entered the Chinese market as a joint venture with EachNet, a Chinese e-commerce company, and had every intention to lead the market in China. However, in anticipation of the future competition, founder and CEO of Alibaba, Jack Ma launched a new website to fend off the United States giant. eBay's market share quickly dwindled after Taobao's entry and in 2006 it cut its losses in the light of Taobao's success.

Amazon entered the Chinese market in 2004 by purchasing the Chinese online bookseller and retailer Joyo.com. The site failed to live up to its high hopes and by 2014, held less than 3 percent of the Chinese e-tail market.

Taobao understood the Chinese consumer's fear of being cheated online and focused on instilling trust.

So what accounts for Taobao's dominance over established online players like Amazon and eBay? Taobao understood the Chinese consumer's fear of being cheated online and tried to instill trust. Domestic consumers were not familiar with making purchases without being able to inspect the items. Widespread fraud and general misapprehension about the Internet made consumers wary of online shopping. To allay such fears of fraudulent practices, Taobao introduced an optional escrow service where the buyer transfers their money to Alipay, a third-party online payment platform, which informs the seller that the money has been transferred. The seller would then send the item to the buyer. Only when the buyer has received and inspected the item would Alipay allow the seller to receive the money transferred. Because most Chinese consumers do not use credit cards, the Alipay system, unlike PayPal, does not require a credit card for transactions to be initiated and can debit from a Chinese bank account.

Taobao also understands that negotiating and bargaining is part of the enjoyable experience that Chinese shoppers look forward to. Taobao's chat room, AliWangWang, allows shoppers to negotiate prices with sellers; shoppers can even interact directly with sellers and ask them questions about their products.

The platform's design gives it a strong local identity. To capitalize on Chinese' nationalistic sentiment, each member of Taobao's administrative team has a nickname based on a fictional character from famous kung fu novels. This informality gives Chinese shoppers a sense of welcome and being part of the larger Chinese community. Taobao's corporate red and orange colors are suggestive of festivity and prosperity—messages that every Chinese individual is familiar with and favorably disposed to. In addition to this, its Web site is filled with information. Unlike Google's design, which is very sparse, Taobao's official site is cluttered with many links, imitating the physical shopping environment in China—noisy, busy, and colorful.

Taobo has successfully drawn big businesses into having a presence on the e-tail portal. China's biggest bookstore, Xinhua, features on Taobao's platform as does leading Japanese casual-wear maker, UNIQLO. Even China Eastern Airlines has formed an alliance with Taobao and Alipay, setting up an online ticket store and reaching out to more individuals than before.

As another strategic move, Jack Ma, who noted that more people preferred browsing through television channels more than surfing the Web, ensured that Taobao had adequate number of ads aired across major TV channels. Taobao also brings the latest trends in mass-selling online. One of its successful flash sales campaigns was to transform an obscure student holiday into an online holiday. November 11 or 11/11, known as Singles Day, became the largest e-commerce sales day, making $14.3 billion in sales in 2015. This success resulted in offline retailers holding similar sales on November 11.

With smartphone penetration on the rise, Taobao is poised to do even better. Cities outside the Tier 1 region have the fastest growth rate in smartphone penetration. The "far off" locations work to Taobao's advantage as the ability of offline retailers to deliver to such areas is limited. The company is looking to address changing tastes and preferences of Chinese consumers with Taobao Mall, focusing on service quality; Taobao is also using its shopping search engine eTao to provide information other than pricing, including product guarantees, reviews, and shipping options.[1]

What Is Marketing?

Marketing, more than any other business function, deals with customers. Perhaps the simplest definition of marketing is *managing profitable customer relationships.* The twofold goal of marketing is to attract new customers by promising superior value and keep and grow current customers by delivering satisfaction.

For example, Taobao surges ahead of Amazon and eBay as an online shopping site in China because it meets the needs of Chinese consumers who are concerned with trust issues when shopping online. Jollibee is a favorite fast-food chain among Filipinos because it understands what Filipinos love to eat.

› Jollibee surged ahead of McDonald's in the Philippines with superior value based on customer focus, respect for the individual, teamwork, spirit of family and fun, attention to details—listening and learning, honesty and integrity, and excellent economic sense.

› **Marketing is all around you** – Even in markets such as this in Vietnam, marketing is at work. The fruit seller has to understand her market, distribute her fruits at the right place, sell them at the right price, and be alert of who else are selling fruits or possible substitutes. She has to make sure that she offers superior customer value.

Sound marketing is critical to the success of every organization. Large for-profit firms, such as Procter & Gamble, Google, Toyota, and Shangri-La Hotel use marketing. But so do not-for-profit organizations such as colleges, hospitals, museums, symphony orchestras, and even churches.

You already know a lot about marketing—it's all around you. You see it in products at your nearby shopping mall and the ads that fill your TV screen, spice up your magazines, or stuff your mailbox. But in recent years, marketers have assembled a host of new marketing approaches, everything from imaginative Web sites and online social networks to your mobile phone. These new approaches do more than just blast out messages to the masses. They reach you directly and personally. Today's marketers want to become a part of your life and enrich your experiences with their brands—to help you *live* their brands.

At home, at school, where you work, and where you play, you see marketing in almost everything you do. Yet, there is much more to marketing than meets the consumer's eye. Behind it all is a massive network of people and activities competing for your attention and purchases. This book will give you an introduction to the basic concepts and practices of today's marketing. In this chapter, we begin by defining marketing and the marketing process.

Marketing Defined

What *is* marketing? Marketing is more than selling and advertising. It involves *satisfying customer needs.* The marketer needs to understand consumer needs, develop products and services that provide superior customer value, and price, distribute, and promote them effectively. Hence, **marketing** is the process by which companies create value for customers and build strong customer relationships to capture value from customers in return.[2]

Marketing
The process by which companies create value for customers and build strong customer relationships in order to capture value from customers in return.

The Marketing Process

Figure 1.1 presents a simple five-step model of the marketing process. In the first four steps, companies work to understand consumers, create customer value, and

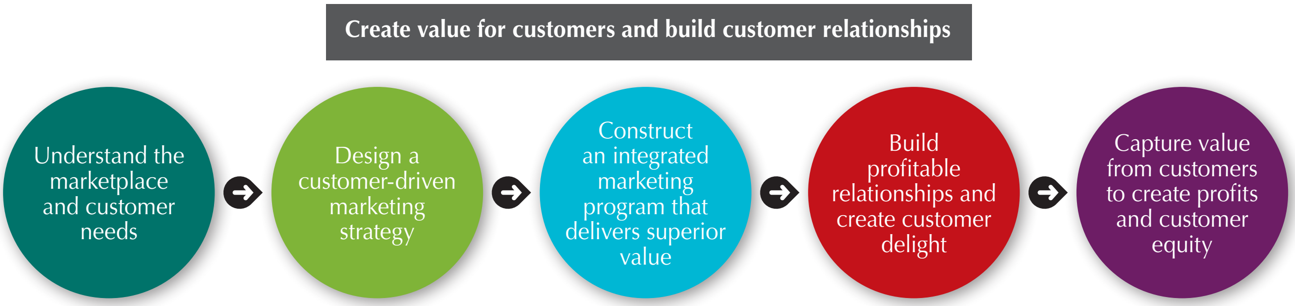


FIGURE 1.1
A simple model of the marketing process

build strong customer relationships. In the final step, companies reap the rewards of creating superior customer value. By creating value *for* consumers, they in turn capture value *from* consumers in the form of sales, profits, and long-term customer equity.

In this and the next chapter, we will examine the steps of this simple model of marketing. In this chapter, we will review each step but focus more on the customer relationship steps—understanding customers, building customer relationships, and capturing value from customers. In Chapter 2, we'll discuss the second and third steps—designing marketing strategies and constructing marketing programs.

Understanding the Marketplace and Customer Needs

As a first step, marketers need to understand customer needs and wants, and the marketplace within which they operate. We will discuss five core customer and marketplace concepts:

- needs, wants, and demands;
- marketing offerings (products, services, and experiences);
- value and satisfaction;
- exchanges and relationships; and
- markets.

Customer Needs, Wants, and Demands

Needs
States of felt deprivation.

Wants
The form human needs take as they are shaped by culture and individual personality.

Demands
Human wants that are backed by buying power.

The most basic concept underlying marketing is that of human needs. Human **needs** are states of felt deprivation. They include basic *physical* needs for food, clothing, warmth, and safety; *social* needs for belonging and affection; and *individual* needs for knowledge and self-expression. For instance, a survey showed that as Chinese become increasingly cash-rich and time-poor, they want convenience without compromising their health.[3]

Wants are the form human needs take as they are shaped by culture and individual personality. An American *needs* food but *wants* a Big Mac, French fries, and a soft drink. A person in Japan *needs* food but *wants* rice, sashimi, and green tea. Wants are shaped by one's society and are described in terms of objects that will satisfy needs. When backed by buying power, wants become **demands**. Given their wants and resources, people demand products with benefits that add up to the most value and satisfaction.

Outstanding marketing companies conduct marketing research to learn about and understand their customers' needs, wants, and demands. For example, Harley-Davidson's

Chairman regularly mounts his Harley and rides with customers to get feedback and ideas.

Market Offerings—Products, Services, and Experiences

Consumers' needs and wants are fulfilled through a **market offering**—some combination of products, services, information, or experiences offered to a market to satisfy a need or want. Market offerings are not limited to physical *products*. They also include *services*, activities or benefits offered for sale that are essentially intangible and do not result in the ownership of anything. Examples include banking, airline, hotel, tax preparation, and home repair services. Market offerings also include other entities, such as *persons*, *places*, *organizations*, *information*, and *ideas*.

Many sellers make the mistake of paying more attention to the specific products they offer than to the benefits and experiences produced by these products. These sellers suffer from **marketing myopia**. They are so taken with their products that they focus only on existing wants and lose sight of underlying customer needs.[4] They forget that a product is only a tool to solve a consumer problem. A manufacturer of drill bits may think that the customer needs a drill bit. But what the customer *really* needs is a hole. These sellers will have trouble if a new product comes along that serves the customer's need better or less expensively. The customer will have the same *need* but will *want* the new product. **Figure 1.2** summarizes how to avoid marketing myopia.

Smart marketers look beyond the attributes of the products and services they sell. By orchestrating several services and products, they create *brand experiences* for consumers. For example, Walt Disney World is an experience; so is a stay at the Banyan Tree Resorts. And you don't just watch a Formula 1 race; you immerse yourself in the Formula 1 experience.

› Market offerings are not limited to physical products – The Banyan Tree Resorts provide a sanctuary for the senses to those who want a peaceful respite from the hustle and bustle of city life.

Market offering
Some combination of products, services, information, or experiences offered to a market to satisfy a need or want.

Marketing myopia
The mistake of paying more attention to the specific products a company offers than to the benefits and experiences derived from these products.

FIGURE 1.2
Avoid marketing myopia by focusing on product benefits and customer needs

Customer Value and Satisfaction

Consumers usually face a wide variety of products and services that might satisfy a given need. How do they choose among these market offerings? Customers form expectations about the value and satisfaction that various market offerings will deliver and buy accordingly. Satisfied customers buy again and tell others about their good experiences; while dissatisfied customers often switch to competitors and complain about the product to others.

Sony Pictures – With a very limited marketing budget in the U.S., Sony Pictures relied on word-of-mouth communications to promote its Chinese sword-fighting film, *Crouching Tiger, Hidden*

Sony Pictures used word-of-mouth communications to enhance popularity of *Crouching Tiger, Hidden Dragon*.

Dragon. It limited the distribution of the film to only a handful of cinemas to generate intense interest that would spread by word of mouth. Further, over 95 percent of the United States' top critics loved the film despite it being subtitled. This resulted in more people wanting to see the film than there were screens showing it. As word got around, Sony increased the number of screens showing it from 20 to 75, then 120, then 160 and so on, to over 2,000 screens at its peak. People who loved the film told others about it, who could not get tickets because the cinemas were sold out, which heightened the desire, which in turn, fuelled more word of mouth. This resulted in the film staying in the top 10 box-office chart in the United States for months, relying mainly on word of mouth.

Exchanges and Relationships

Exchange
The act of obtaining a desired object from someone by offering something in return.

Marketing occurs when people decide to satisfy needs and wants through exchange relationships. **Exchange** is the act of obtaining a desired object from someone by offering something in return. In the broadest sense, the marketer tries to bring about a response to some market offering. The response may be more than buying or trading products and services. A political candidate, for instance, wants votes; a Web site wants more visits; an orchestra wants an audience; and a social action group wants idea acceptance.

Marketing consists of actions taken to build and maintain desirable exchange *relationships* with target audiences involving a product, service, idea, or other object. Beyond simply attracting new customers and creating transactions, the goal is to retain customers and grow their business with the company. Marketers want to build strong relationships by consistently delivering superior customer value.

Markets

Market
The set of all actual and potential buyers of a product or service.

The concepts of exchange and relationships lead to the concept of a market. A **market** is the set of actual and potential buyers of a product. These buyers share a particular need or want that can be satisfied through exchange relationships.

Marketing means managing markets to bring about profitable customer relationships. Sellers must search for buyers, identify their needs, design good market offerings, set prices for them, promote them, and store and deliver them. Activities such as product development, research, communication, distribution, pricing, and service are core marketing activities.

Although we normally think of marketing as being carried out by sellers, buyers also carry out marketing. Consumers market when they search for products, interact with companies to obtain information, and make their purchases. In fact, today's digital technologies, from Web sites and online social networks to mobile phones, have empowered consumers and made marketing a truly interactive affair. Thus, in addition to customer relationship management, today's marketers must also deal effectively with *customer-managed relationships*. Marketers are no longer asking only "How can we reach our customers?" but also "How should our customers reach us?" and even "How can our customers reach each other?"

Figure 1.3 shows the main elements in a modern marketing system. Marketing involves serving a market of final consumers in the face of competitors. The company and their competitors send their respective offers and messages to consumers. These are affected by major environmental forces (demographic, economic, physical, technological, political/legal, and social/cultural).

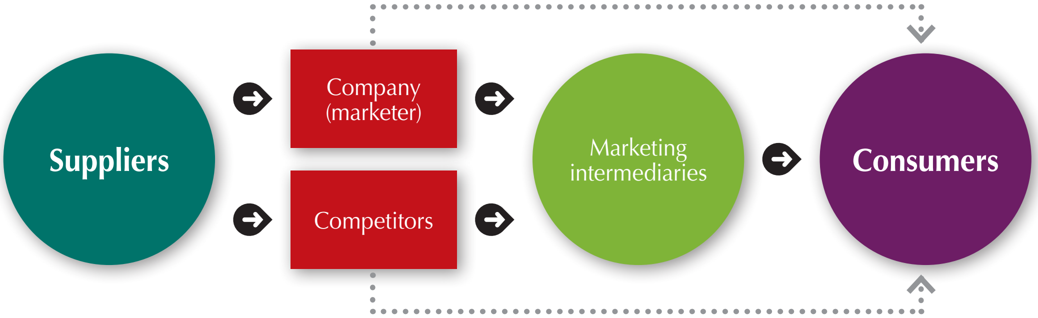


FIGURE 1.3
Elements of a modern marketing system

Each party in the system adds value for the next level. The arrows represent relationships that must be developed and managed. Thus, a company's success at building profitable relationships depends not only on its own actions but also on how well the entire system serves the needs of final consumers. Toyota cannot deliver high quality to car buyers unless its dealers provide outstanding sales and service.

Designing a Customer-Driven Marketing Strategy

Once it fully understands consumers and the marketplace, marketing management can design a customer-driven marketing strategy. **Marketing management** is the art and science of choosing target markets and building profitable relationships with them. The marketing manager's aim is to find, attract, keep, and grow target customers by creating, delivering, and communicating superior customer value.

Marketing management
The art and science of choosing target markets and building profitable relationships with them.

To design a winning marketing strategy, the marketing manager must answer two important questions:

- What customers will we serve (what's our target market)?
- How can we serve these customers best (what's our value proposition)?

Selecting Customers to Serve

The company must first decide *who* it will serve. It does this by dividing the market into segments of customers (*market segmentation*) and selecting which segments it will go after (*target marketing*). Marketing managers know that they cannot serve all customers in every way. By trying to serve all customers, they may not serve any customer well. Instead, the company wants to select only customers that it can serve well and profitably. For example, the Mandarin Oriental Hotel profitably targets affluent professionals, while Holiday Inn profitably targets families with more modest means.

Target market – The Mandarin Oriental Hotel goes after the affluent professionals and business market.

Ultimately, marketing managers must decide which customers they want to target and on the level, timing, and nature of their demand. Simply put, marketing management is *customer management* and *demand management.*

Choosing a Value Proposition

The company must also decide how it will serve targeted customers—how it will *differentiate* and *position* itself in the marketplace. A company's *value proposition* is the set of benefits or values it promises to deliver to consumers to satisfy their needs (see **Figure 1.4**). For example, Subaru provides safety: "Air bags save lives. All-wheel drive saves air bags. It's what makes a Subaru a Subaru." On the other hand, Red Bull, the energy drink, helps you fight mental and physical fatigue. It captures 70 percent of the energy drinks market by promising "It gives you wiiings!"

Such value propositions differentiate one brand from another. They answer the customer's question "Why should I buy your brand rather than a competitor's?" Companies must design strong value propositions that give them the greatest advantage in their target markets.

› Value proposition – Red Bull energy drink vitalizes both body and mind. It gives you "wiiings."

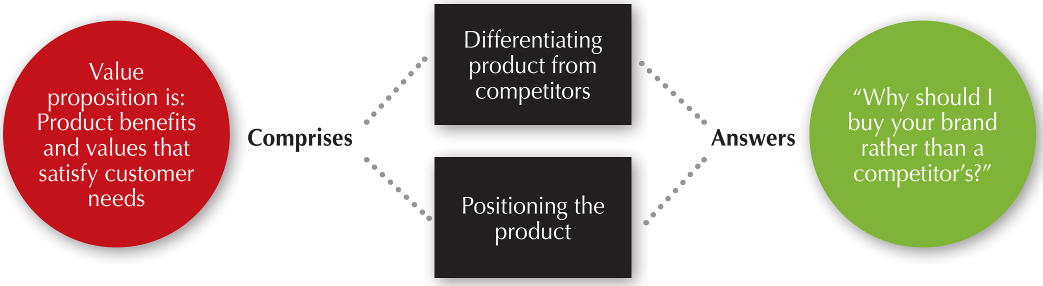


FIGURE 1.4
What is a value proposition?

For instance, Apple positions itself as a mobile device company with its iPod, iPhone, iMac, iPad, Apple Watch, and Apple Pay. The iPad is positioned between a smartphone and a laptop, being able to do tasks that are too big for an iPhone and yet small enough to carry along. The Apple Watch is positioned as an accessory that can be used conveniently for credit card purchases, one of the features not found in the iPhone; while the Apple Pay offers cardless cashless payment conveniences.

Marketing Management Orientations

Marketing management wants to design strategies that will build profitable relationships with target consumers. But what *sort of thinking* should guide these marketing strategies? What weight should be given to the interests of customers, the organization, and society?

There are five alternative concepts with which organizations design and carry out their marketing strategies: *production*, *product*, *selling*, *marketing*, and *societal marketing concepts*.

Production concept
The idea that consumers will favor products that are available and highly affordable and that the organization should therefore focus on improving production and distribution efficiency.

Product concept
The idea that consumers will favor products that offer the most quality, performance, and features and that the organization should therefore devote its energy to making continuous product improvements.

The Production Concept

The **production concept** holds that consumers will favor products that are available and highly affordable. Therefore, management should focus on improving production and distribution efficiency. The production concept is a useful philosophy in some situations. For example, Lenovo dominates the highly competitive, price-sensitive Chinese PC market through low labor costs, high production efficiency, and mass distribution. However, although useful in some situations, the production concept can lead to marketing short-sightedness. Companies adopting this orientation run a major risk of focusing too narrowly on their own operations and losing sight of the real objective—satisfying customer needs and building customer relationships.

The Product Concept

The **product concept** holds that consumers will favor products that offer the most in quality, performance, and innovative features. Under this concept, marketing strategy focuses on making continuous product improvements. Product quality and improvement are important parts of most marketing strategies. However, focusing *only* on the company's products can also lead to marketing myopia. For example, some manufacturers believe that if they can "build a better mousetrap, the world will beat a path to their door." But buyers may well be looking for a better solution to a mouse problem, not necessarily for a better mousetrap. The better solution might be an exterminating service or something that works better than a mousetrap. Further, a better mousetrap will not sell unless the manufacturer designs, packages, and prices it attractively, places it in convenient distribution channels, brings it to the attention of people who need it, and convinces buyers that it is a better product.

❯ Building a better mousetrap follows the product concept.

The Selling Concept

Many companies follow the **selling concept**, which holds that consumers will not buy enough of the firm's products unless it undertakes a large-scale selling and promotion effort. The concept is typically practiced with unsought goods—those that buyers do not normally think of buying, such as insurance or blood donations. These industries must track down prospects and sell them on product benefits. Such aggressive selling, however, carries high risks. It focuses on creating sales transactions rather than on building long-term, profitable customer relationships. The aim often is to sell what the company makes rather than making what the market wants. It assumes that customers who are coaxed into buying the product will like it. Or, if they don't like it, that they will possibly forget their disappointment and buy it again later. These are usually poor assumptions.

Selling concept
The idea that consumers will not buy enough of the firm's products unless it undertakes a large-scale selling and promotion effort.

Marketing concept
The marketing management philosophy that achieving organizational goals depends on knowing the needs and wants of target markets and delivering the desired satisfactions better than competitors do.

The Marketing Concept

The **marketing concept** holds that achieving organizational goals depends on knowing the needs and wants of target markets and delivering the desired satisfactions

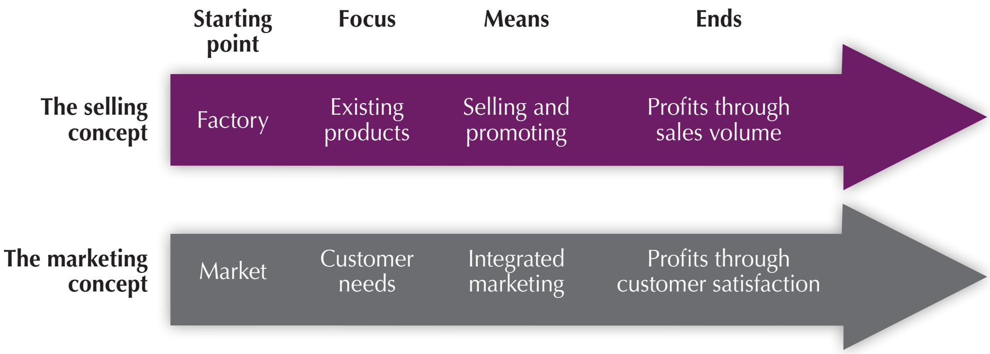
❯ McDonald's adapts its menu to suit Chinese tastes.

better than competitors do. Under the marketing concept, customer focus and value are the *paths* to sales and profits. Instead of a product-centered "make and sell" philosophy, the marketing concept is a customer-centered "sense and respond" philosophy. The job is not to find the right customers for your product, but to find the right products for your customers. McDonald's, for instance, customized its menu to suit Chinese taste buds. Diners can choose from green pea pies, rice burgers, and a mint-flavored soda called Blue Haven alongside their staple Big Mac and fries.[5]

Figure 1.5 contrasts the selling concept and the marketing concept. The selling concept takes an *inside-out* perspective. It starts with the factory, focuses on the company's existing products, and calls for heavy selling and promotion to obtain profitable sales. It focuses primarily on customer conquest—getting short-term sales with little concern about who buys or why.

Implementing the marketing concept often means more than responding to customers' stated desires and obvious needs. *Customer-driven* companies research deeply on current customers to learn about their desires, gather new product and service ideas, and test proposed product improvements. Such customer-driven marketing usually works well when a clear need exists and when customers know what they want.

In many cases, however, customers *don't* know what they want or even what is possible. For example, even 20 years ago, how many consumers would have thought to ask for now-commonplace products such as mobile phones, notebook computers, digital cameras, 24-hour online buying, and satellite navigation systems



◗ FIGURE 1.5
The selling and marketing concepts contrasted

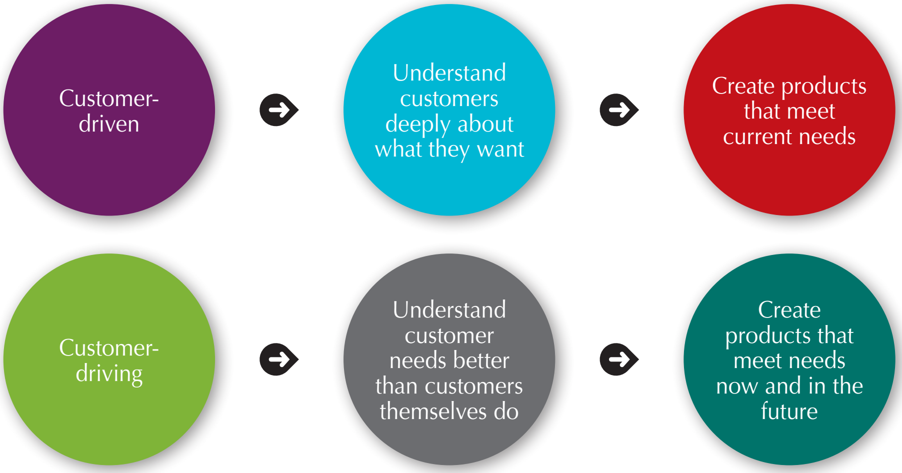


FIGURE 1.6
Customer-driven versus customer-driving

in their cars? Such situations call for *customer-driving* marketing—understanding customer needs even better than customers themselves do and creating products and services that meet existing and latent needs, now and in the future. **Figure 1.6** contrasts customer-driven and customer-driving marketing.

The Societal Marketing Concept

The **societal marketing concept** questions whether the pure marketing concept overlooks possible conflicts between consumer *short-run wants* and consumer *long-run welfare*. Is a firm that satisfies the immediate needs and wants of target markets always doing what's best for consumers in the long run? The societal marketing concept holds that the marketing strategy should deliver value to customers in a way that maintains or improves both the consumer's *and* society's well-being. It calls for *sustainable marketing*, socially and environmentally responsible marketing that meets the present needs of consumers and businesses while also preserving or enhancing the ability of future generations to meet their needs.

Societal marketing concept
A principle of enlightened marketing that holds that a company should make good marketing decisions by considering consumers' wants, the company's requirements, consumers' long-run interests, and society's long-run interests.

Hindustan Unilever (HUL) refreshes its product portfolio constantly to bring about social equity through its brands, and thereby bring social benefits to the society. Its Chairman says that social innovation is central to how its brands drive its business strategy. HUL strives to increase the social value of its brands while taking steps to reduce its environmental impact. It developed an advanced yet affordable in-home water purifier, Pureit, to alleviate the unsafe drinking water problem in India. HUL also believes that social responsibility is more than just philanthropy. It established the Fair & Lovely Foundation to encourage economic empowerment of Indian women through information and resources in education, career, and enterprise. To celebrate its 75 years in India, HUL partnered with DHAN Foundation to help 75,000 poor women pool their own savings or access resources from banks to finance activities such as land development, construction of farm ponds, and small businesses like catering and handicraft. Another unique initiative is HUL Sankalp, under which HUL employees commit to social volunteering one hour for every day that HUL has been in India. Collectively, HUL employees logged over 40,000 hours of volunteering, with one out of three employees participating.[6]

As **Figure 1.7** shows, companies should balance three considerations in setting their marketing strategies: company profits, consumer wants, *and* society's interests. Johnson & Johnson does this well. Its concern for societal interests is summarized in a company document called "Our Credo," which stresses honesty, integrity, and putting people before profits. Under this credo, Johnson & Johnson would rather take a big loss than ship a bad batch of one of its products.

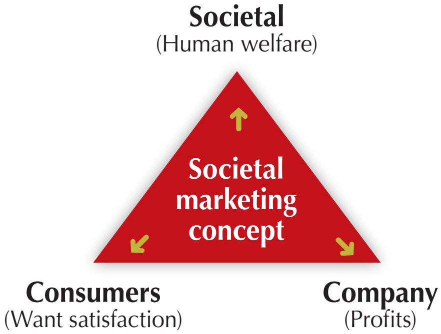


FIGURE 1.7
Three considerations underlying the societal marketing concept

Consider the tampering case in which people died from swallowing cyanide-laced capsules of Tylenol, a Johnson & Johnson brand. Although Johnson & Johnson believed that the pills had been altered in only a few stores, not in the factory, it quickly recalled its product and launched an information campaign to instruct and reassure consumers. However, in the long run, the company's swift recall of Tylenol strengthened consumer confidence and loyalty. Today, Tylenol remains a leading brand of pain reliever.

Preparing an Integrated Marketing Plan and Program

The company's marketing strategy outlines which customers the company will serve and how it will create value for these customers. Next, the marketer develops an integrated marketing program that delivers the intended value to target customers. The marketing program builds customer relationships by transforming the marketing strategy into action. It consists of the firm's *marketing mix*, the set of marketing tools the firm uses to implement its marketing strategy.

The major marketing mix tools are classified into four broad groups, called the *four Ps* of marketing: product, price, place, and promotion. To deliver on its value proposition, the firm must:

- create a need-satisfying market offering (product);
- decide how much it will charge for the offer (price);
- decide how it will make the offer available to target customers (place); and
- communicate with target customers about the offer and persuade them of its merits (promotion).

The firm must blend all of these marketing mix tools into a comprehensive, *integrated marketing program* that communicates and delivers the intended value to chosen customers.

Building Customer Relationships

The first three steps in the marketing process—understanding the marketplace and customer needs, designing a customer-driven marketing strategy, and constructing marketing programs—all lead up to the fourth and most important step: building profitable customer relationships.

Customer Relationship Management

Customer relationship management (CRM) is perhaps the most important concept of modern marketing. More than managing detailed information about individual customers and managing customer "touch points" to maximize customer loyalty, **customer relationship management** involves building and maintaining profitable customer relationships by delivering superior customer value and satisfaction. It deals with all aspects of acquiring, keeping, and growing customers.

Customer relationship management
The overall process of building and maintaining profitable customer relationships by delivering superior customer value and satisfaction.

› **Customer relationship management** – This requires the delivery of quality products with service, efficiency, and reliability to ensure customer satisfaction and maintaining relationships with them.

Relationship Building Blocks: Customer Value and Satisfaction

The key to building lasting customer relationships is to create superior customer value and satisfaction. Satisfied customers are more likely to be loyal customers and to give the company a larger share of their business.

Customer Value

Customers often face a bewildering array of products and services from which to choose. A customer buys from the firm that offers the highest **customer perceived value**—the customer's evaluation of the difference between all the benefits and all the costs of a market offering relative to those of competing offers. **Figure 1.8** shows a customer's perception of value.

Customer perceived value
The customer's evaluation of the difference between all the benefits and all the costs of a market offering relative to those of competing offers.

For example, Toyota Prius hybrid automobile owners gain a number of benefits. The most obvious benefit is fuel efficiency. However, by purchasing a Prius, the owners also may receive some status and image values. Driving a Prius makes owners feel and appear more environmentally responsible. When deciding whether to purchase a Prius, customers will weigh these and other perceived values of owning the car against the money, effort, and psychic costs of acquiring it. Moreover, they will compare the value of owning a Prius against that of owning another hybrid or

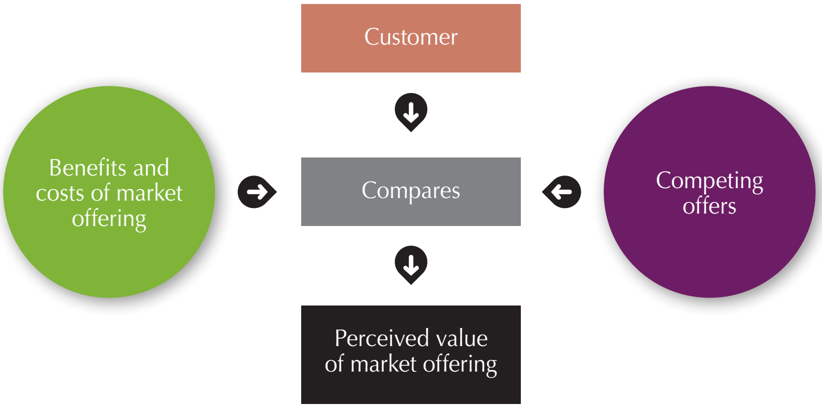


FIGURE 1.8
Customer-perceived value

non-hybrid brand. They will select the brand that gives them the greatest perceived value. To enhance its perceived value, Toyota redesigned its hybrid vehicle Web site to let owners create profiles similar to those found on social networking sites. It allows users to view other owners' profiles, share their reasons for driving a hybrid, and provide statistics about themselves and their vehicles. There's also an interactive distance map that charts how much further Toyota hybrid vehicles travel compared to ordinary cars, as well as a petrol savings calculator. Toyota feels that their hybrid owners are passionate about their vehicles and the reasons they drive them. The community site taps into this excitement by letting users visually represent themselves through graphic art and video.[7]

In 2009, Toyota launched its first mobile site that gives vehicle and dealer information on consumers' mobile phone browsers. Those with an iPhone or iPod Touch get a rich media experience as they can view videos and access a 360-degree colorizer from their handheld device.[8]

Customers often do not judge product values and costs accurately or objectively. They act on *perceived* value. For example, is the Prius really the most economical choice? In reality, it might take years to save enough in reduced fuel costs to offset the car's higher sticker price. However, Prius buyers perceive that they are getting real value. A survey of the ownership experiences of 69,000 new car buyers showed that the Prius was rated as most "delightful" in terms of fuel economy, and that Prius owners perceived more overall value for their money than buyers of any other hybrid car.[9]

Customer perceived value – When deciding whether to purchase a Prius, customers will weigh its benefits against the benefits of owning another hybrid or non-hybrid brand.

Customer Satisfaction

Customer satisfaction depends on the product's perceived performance relative to a buyer's expectations. If the product's performance falls short of expectations, the customer is dissatisfied. If performance matches expectations, the customer is satisfied. If performance exceeds expectations, the customer is highly satisfied or delighted.

Customer satisfaction
The extent to which a product's perceived performance matches a buyer's expectations.

For example, some Japanese department store chains have fallen short of expectations and are losing favor among the Japanese, who now prefer specialty shops offering quality products at lower prices. Previously, department stores were noted as purveyors of luxury goods and known for their refined service. Then, it was considered *de rigueur* that presents given on special occasions should come in the distinctive wrapping papers of well-known department stores. However, the long recession has made cash-strapped consumers seek more value-for-money purchases. Younger Japanese are less satisfied with department stores and seek specialty stores instead.[10]

The recession has seen younger Japanese consumers seeking specialty stores instead of department store chains as consumers are dissatisfied with the latter.

Outstanding marketing companies go out of their way to keep important customers satisfied. Most studies show that higher levels of customer satisfaction lead to greater customer loyalty, which in turn results in better company performance. Smart companies aim to *delight* customers by promising only what they can deliver, then delivering *more* than they promise. Delighted customers not only make repeat purchases, they become "customer evangelists" who tell others about their good experiences with the product.

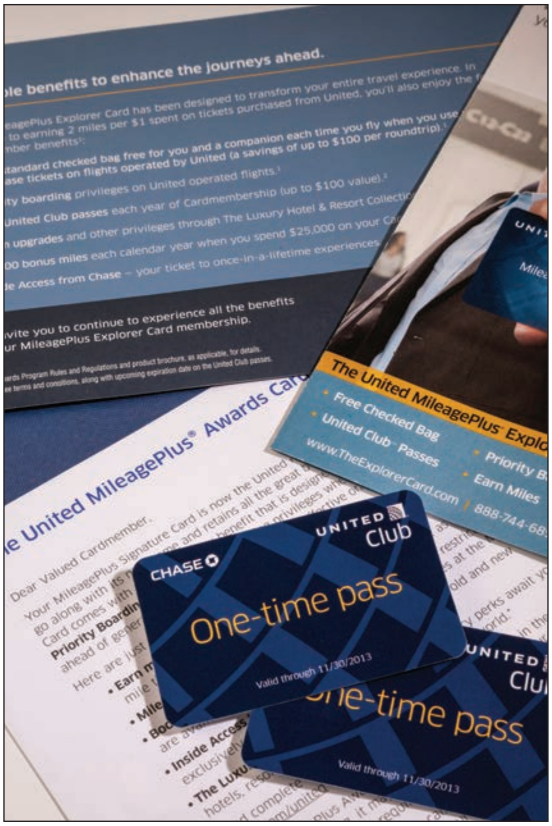
To demonstrate the importance of understanding its customers, Honda has a manager of customer understanding. Honda has an online Customer Relationship Management (CRM) that serves as a research tool for giving instant feedback on key issues important to its customers. Called "Honda Friends," registered customers are sent short surveys asking for their opinions on their experiences with Honda. The surveys are sent out at least once a year but no more than once a month.[11]

Delighting customers with exceptional value and service is more than a set of policies or actions—it is a company-wide attitude, an important part of the overall company culture.

However, although the customer-centered firm seeks to deliver high customer satisfaction relative to competitors, it does not attempt to *maximize* customer satisfaction. A company can always increase customer satisfaction by lowering its price or increasing its services. But this may result in lower profits. Thus, the purpose of marketing is to generate customer value profitably. This requires a very delicate balance.

Customer Relationship Levels and Tools

Companies can build customer relationships at many levels. At one extreme, a company with many low-margin customers may seek to develop *basic relationships* with them. For example, Procter & Gamble creates relationships through brand-building advertising, sales promotions, and a Web site. At the other extreme, in markets with few customers and high margins, sellers want to create *full partnerships* with key customers. For example, P&G customer teams work closely with its large retailers. In between these two extreme situations, other levels of customer relationships are appropriate.



Consumers can be bonded to companies through relationship-building tools such as reward or award programs.

Today, most leading companies are developing customer loyalty and retention programs. Beyond offering consistently high value and satisfaction, marketers can use specific marketing tools to develop stronger bonds with consumers. For example, many companies offer *frequency marketing programs* that reward customers who buy frequently or in large amounts. Airlines offer frequent-flyer programs and hotels give room upgrades to their frequent guests.

Other companies sponsor *club marketing programs* that offer members special benefits and create member communities. For example, Harley-Davidson sponsors the Harley Owners Group (H.O.G.), which gives Harley riders "an organized way to share their passion and show their pride." H.O.G. membership benefits include two magazines (*Hog Tales* and *Enthusiast*), a *H.O.G. Touring Handbook*, a roadside assistance program, a specially designed insurance program, a theft reward service, a travel center, and a "Fly & Ride" program enabling members to rent Harleys while on vacation. The worldwide club now numbers more than 1,500 local chapters and over 1 million members.[12]

To build customer relationships, companies can add structural ties as well as financial and social benefits. A business marketer might supply customers with special equipment or online linkages that help them manage their orders, payroll, or inventory. For example, a pharmaceutical wholesaler may set up an online supply management system to help retailers manage their inventories, order entry, and shelf space.

The Changing Nature of Customer Relationships

Today's companies are building more direct and lasting relationships with more carefully selected customers. Here are some important trends in the way companies are relating to their customers.

Relating with More Carefully Selected Customers

Most companies are targeting fewer, more profitable customers. Called *selective relationship management*, many companies use customer profitability analysis to weed out losing customers and target winning ones. Attractive offers are created to capture the profitable customers and earn their loyalty.

In India, the global lifestyle brand Nautica invited 45 people on a "Nautica Navigator"—three days of 1,200-km car rallies, 35-km river rafting on the Ganges, and jumping 10 meters off a cliff in the mountainous terrain of Rishikesh. The small group of selected guests lived the brand. Contests and attractive prizes further enriched the relationship between the customer and Nautica.[13]

Relating More Deeply and Interactively

Beyond designing strategies to *attract* new customers and create *transactions* with them, firms are using customer relationship management to *retain* current customers and build profitable, long-term *relationships* with them.

The deeper nature of today's customer relationships result in part from the rapidly changing communications environment. Rather than relying on one-way, mass-media messages only, today's new marketers are incorporating new, more interactive approaches that help build targeted, two-way customer relationships.

Nautica, in India, engaged a select group of customers in outdoor activities to live the brand.

Two-way Customer Relationships

New technologies have profoundly changed how people relate to one another. New tools include email, blogs, Web sites, video sharing, online communities, and social networks such as Facebook, YouTube, and Twitter.

This changing environment also affects how consumers relate to companies and products. Increasingly, marketers are using the new communications approaches to build closer customer relationships. The aim is to create deeper consumer involvement and a sense of community surrounding a brand—to make the brand a meaningful part of consumers' conversations and lives.

For example, on RefreshEverything.com, Pepsi's online CRM program, consumers list projects that can improve communities such as feeding the hungry or teaching people to read. Consumers vote on the site on projects they think should receive a share of the $20 million that Pepsi is donating. They also contribute their email addresses for email alerts on the project.[14]

❯ Companies such as Pepsi are increasingly using new technologies to involve consumers. On RefreshEverything.com, Pepsi lets consumers have a say on what projects should benefit from Pepsi's giveback to the society.

However, while the new communications tools create relationship-building opportunities for marketers, they also create challenges. Rather than being passive recipients, consumers are empowered as part of the marketing process, resulting in brand democratization.[15] Today's consumers have more information about brands than ever before, and they have many platforms for airing and sharing their brand views with other consumers. And more than ever before, consumers can choose the brand conversations and exchanges in which they will participate.

Greater consumer control means that, in building relationships, companies can no longer rely on marketing by *intrusion*. They must practice marketing by *attraction*—creating market offerings and messages that involve consumers rather than interrupt them. Hence, most marketers now augment their mass-media marketing efforts with a rich mix of direct marketing approaches that promote brand–consumer interaction.

Many companies are also participating in *online social networks* or creating online communities of their own. Here's one example.

Some organizations are creating Twitter pages and promotions. They "tweet" to start conversations with registered Twitter users, address customer service issues, research customer reactions, and drive traffic to relevant articles, Web sites, contests, and other brand activities.

Consumer-generated marketing
Brand exchanges created by consumers themselves—both invited and uninvited—by which consumers are playing an increasing role in shaping their own brand experiences and those of other consumers.

Consumer-Generated Marketing

A growing part of the new customer dialogue is **consumer-generated marketing**, by which consumers themselves are playing a bigger role in shaping their own brand experiences and those of others. This might happen through uninvited consumer-to-consumer exchanges in blogs, video-sharing sites, and other digital forums. But increasingly, companies are *inviting* consumers to play a more active role in shaping products and brand messages. For example, Coca-Cola, McDonald's, and Apple have snagged brand-related consumer videos from YouTube and other popular video-sharing sites and turned them into commercial messages.

Some companies ask consumers for new product ideas. For example, Coca-Cola's Vitaminwater set up a Facebook app to obtain consumer suggestions for a new flavor, promising to manufacture and sell the winner. The new flavor—Connect (black cherry–lime with vitamins and a kick of caffeine)—was a big hit. Vitaminwater also doubled its Facebook fan base to more than 1 million.

Other companies are inviting customers to play an active role in shaping ads. In Japan, Nike ran contests for consumer-generated commercials and aired a combination of these. During the Beijing Olympic Games, McDonald's in China asked viewers to send in cheers online. The best cheers were those that garnered the highest votes and were used in its Olympics promotion.

However, harnessing consumer-generated content can be a time-consuming and costly process. When Heinz invited consumers to submit homemade ads for its ketchup on its YouTube page, it ended up sifting through more than 8,000 entries of varying quality.

Consumer-generated marketing, whether invited by marketers or not, has become a significant marketing force. Through a profusion of consumer-generated videos, blogs, and Web sites, consumers are playing an increasing role in shaping their own brand experiences. Beyond creating brand conversations, customers are having an increasing say about everything from product design, usage, and packaging, to pricing and distribution.

Partner Relationship Management

Marketers must work closely with a variety of marketing partners. In addition to being good at *customer relationship management*, marketers must also be good at

❯ Vitaminwater capitalized on Facebook for consumer suggestions for a new flavor.

partner relationship management. Major changes are occurring in how marketers partner with others from inside and outside the company to jointly bring more value to customers (see **Figure 1.9**).

Partner relationship management
Working closely with partners in other company departments and outside the company to jointly bring greater value to customers.

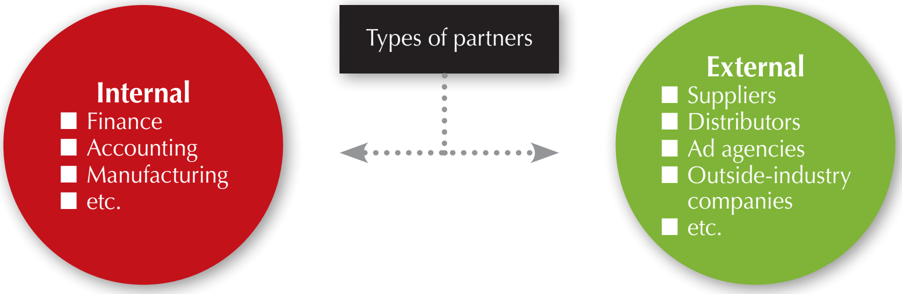


FIGURE 1.9
Internal and external partners that marketers need to work with

Partners Inside the Company

Traditionally, marketers have been charged with understanding customers and representing customer needs to different company departments. However, in today's more connected world, marketing no longer has sole ownership of customer interactions. Every functional area can interact with customers, especially electronically. The new thinking is that every employee must be customer focused. David Packard, the late cofounder of Hewlett-Packard, wisely said, "Marketing is far too important to be left only to the marketing department."[16]

Today, rather than letting each department go its own way, firms are linking all departments to create customer value. Rather than assigning only sales and marketing people to customers, they are forming cross-functional customer teams. For example, Procter & Gamble assigns "customer development teams" to each of its major retailer accounts. These teams, consisting of sales and marketing people, operations specialists, market and financial analysts, and others, coordinate the efforts of many P&G departments towards helping the retailer be more successful.

Marketing Partners Outside the Firm

Changes are also occurring in how marketers connect with their suppliers, channel partners, and even competitors. Most companies today are networked companies, relying heavily on partnerships with other firms.

Marketing channels consist of distributors, retailers, and others who connect the company to its buyers. The *supply chain* describes a longer channel, stretching from raw materials to components to final products that are carried to final buyers. For example, the supply chain for personal computers consists of suppliers of computer chips and other components, the computer manufacturer, and the distributors, retailers, and others who sell the computers.

Through *supply chain management*, companies are strengthening their connections with partners along the supply chain. They know that success at building customer relationships also rests on how well their entire supply chain performs against competitors' supply chains. These companies don't just treat suppliers as vendors and distributors as customers. They treat both as partners in delivering customer value. On the one hand, for example, Lexus works closely with carefully selected suppliers to improve quality and operations efficiency. On the other hand, it works with its franchise dealers to provide top-grade sales and service support that will bring customers through the door and keep them coming back.

❯ Lexus works closely with its franchise dealers such as Borneo Motors in Singapore to provide top-grade sales and service support.

Customer lifetime value
The value of the entire stream of purchases that a customer would make over a lifetime of patronage.

Share of customer
The portion of the customer's purchasing that a company gets in its product categories.

Beyond managing the supply chain, companies are also discovering that they need strategic partners if they hope to be effective. *Strategic alliances* are booming across almost all industries and services. For example, in view of China's explosive growth in auto sales, McDonald's has a 20-year drive-through deal with Sinopec, a state-owned oil company, to give it right of first refusal on locating its restaurants at any of Sinopec's 30,000 petrol stations.[17]

Capturing Value from Customers

The first four steps in the marketing process involve building customer relationships by creating and delivering superior customer value. The final step involves capturing value in return, in the form of current and future sales, market share, and profits. By creating superior customer value, the firm creates highly satisfied customers who stay loyal and buy more. This, in turn, means greater long-run returns for the firm. Here, we discuss the outcomes of creating customer value: customer loyalty and retention, share of market and share of customer, and customer equity.

Creating Customer Loyalty and Retention

Good customer relationship management creates customer delight. In turn, delighted customers remain loyal and speak favorably to others about the company and its products. Thus, the aim of customer relationship management is to create not just customer satisfaction, but customer delight.[18]

Companies are realizing that losing a customer means losing more than a single sale. It means losing **customer lifetime value**—the entire stream of purchases that the customer would make over a lifetime of patronage. For example, Lexus estimates that a single satisfied and loyal customer is worth $600,000 in lifetime sales. Thus, working to retain and grow customers makes good economic sense.

In fact, a company can lose money on a specific transaction but still benefit greatly from a long-term relationship. This means that companies must aim high in building customer relationships. Customer delight creates an emotional relationship with a product or service, not just a rational preference.

❯ Amazon.com increases its share of each customer's purchases by offering not just music and videos, but also a slew of other products including toys, home improvement items, and an online auction. It also makes product recommendations based on the purchase history of individual customers.

Growing Share of Customer

Good customer relationship management can also help marketers to increase their **share of customer**—the share they get of the customers purchasing in their product categories. Thus, banks want to increase their "share of wallet." Supermarkets and restaurants want to get more "share of stomach." Airlines want greater "share of travel."

To increase share of customer, firms can offer greater variety to current customers. Or they can train employees to cross-sell and up-sell in order to market more products and services to existing customers. For example, Amazon.com is highly skilled at leveraging relationships with its 304 million customers to increase its share of each customer's purchases. Originally an online bookseller, Amazon.com now offers customers music, videos, gifts, toys, consumer electronics, office products, home improvement items, lawn and garden products, apparel and accessories, jewelry, and an online auction. In addition, based on each customer's purchase history, the company recommends related products that might be of interest, influencing more sales. In this way, Amazon.com captures a greater share of each customer's spending budget.

Building Customer Equity

What is Customer Equity?

The ultimate aim of customer relationship management is to produce high *customer equity*.[19] **Customer equity** is the combined discounted customer lifetime values of all of the company's current and potential customers. Clearly, the more loyal the firm's profitable customers, the higher the firm's customer equity. Customer equity may be a better measure of a firm's performance than current sales or market share. Whereas sales and market share reflect the past, customer equity suggests the future.

Customer equity
The total combined customer lifetime values of all of the company's customers.

Building the Right Relationships with the Right Customers

Companies should manage customer equity carefully. They should view customers as assets that need to be managed and maximized. But not all customers, not even all loyal customers, are good investments. Surprisingly, some loyal customers can be unprofitable, and some disloyal customers can be profitable.

The company can classify customers according to their potential profitability and manage its relationships with them accordingly. **Figure 1.10** classifies customers into one of four relationship groups, according to their profitability and projected loyalty.[20] Each group requires a different relationship management strategy.

- *Strangers* show low profitability and little projected loyalty. There is little fit between the company's offerings and their needs. The relationship management strategy for these customers is simple: Don't invest anything in them.
- *Butterflies* are profitable but not loyal. There is a good fit between the company's offerings and their needs. However, like real butterflies, their benefits can be enjoyed for only a short while before they're gone. An example is stock market investors who trade shares often and in large amounts, but who enjoy hunting for the best deals without building a regular relationship with any single brokerage company. Efforts to convert butterflies into loyal customers are rarely successful. Instead, the company should enjoy the butterflies for the moment. It should use promotional blitzes to attract

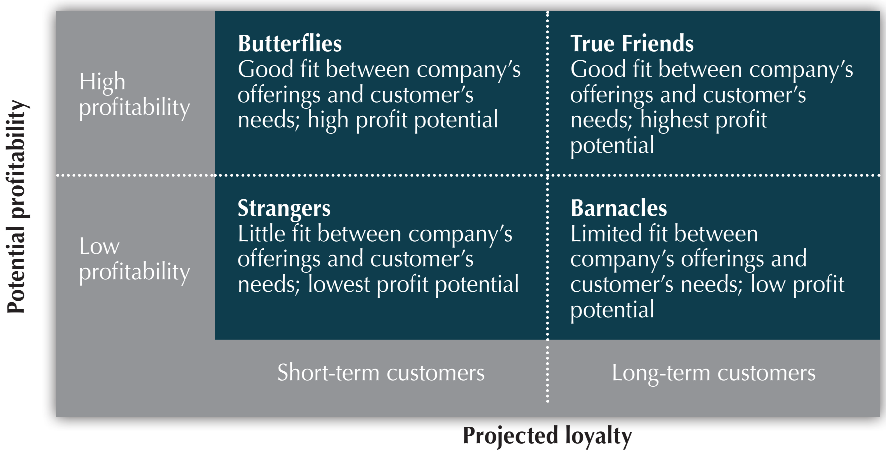


FIGURE 1.10
Customer relationship groups
Source: Reprinted by permission of *Harvard Business Review*. Adapted from "Mismanagement of Customer Loyalty" by Werner Relnartz and V. Kumar, July 2002, p. 93. Copyright © by the president and fellows of Harvard College; all rights reserved.

them, create satisfying and profitable transactions with them, and then cease investing in them until the next time around.

- *True friends* are both profitable and loyal. There is a strong fit between their needs and the company's offerings. The firm wants to make continuous relationship investments to delight these customers and nurture, retain, and grow them. It wants to turn true friends into "true believers," who come back regularly and tell others about their good experiences with the company.
- *Barnacles* are highly loyal but not very profitable. There is a limited fit between their needs and the company's offerings. An example is smaller bank customers who bank regularly but do not generate enough returns to cover the costs of maintaining their accounts. Like barnacles on the hull of a ship, they create drag. Barnacles are perhaps the most problematic customers. The company might be able to improve their profitability by selling them more, raising their fees, or reducing service to them. However, if they cannot be made profitable, they should be "fired."

The point here is an important one: Different types of customers require different relationship management strategies. The goal is to build the right relationships with the right customers.

The Changing Marketing Landscape

In this section, we examine the major trends and forces that are changing the marketing landscape and challenging marketing strategy. We look at four major developments: the digital age, rapid globalization, the call for more ethics and social responsibility, and the growth in not-for-profit marketing.

The Digital Age: Online, Mobile, and Social Media Marketing

› Technology has brought a new wave of marketing tools.

The technology boom has created exciting new ways to learn about and track customers and to create products and services tailored to individual customer needs. Technology is also helping companies to distribute products more efficiently and effectively. And it's helping them to communicate with customers in large groups or on a one-to-one basis.

Through videoconferencing, marketing researchers at a company's headquarters in New York can look in on focus groups in Shanghai or Mumbai without ever stepping onto a plane. With only a few clicks of a mouse, a direct marketer can tap into online data services to learn anything from what car you drive to what you read to what flavor of ice cream you prefer. Also, using today's powerful computers, marketers can create their own detailed customer databases and use them to target individual customers with offers designed to meet their specific needs.

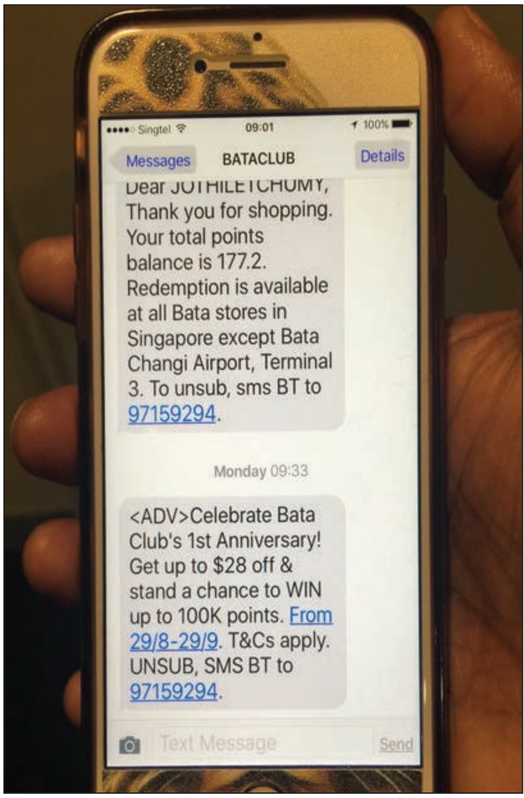
Technology has also brought a new wave of communication and advertising tools—ranging from mobile phones, DVRs, Web sites, and interactive TV to video kiosks at airports and shopping malls. Marketers can use these tools to zero in on selected customers with carefully targeted messages.

Through the Internet, customers can learn about, design, order, and pay for products and services, without ever leaving home. From virtual reality displays that test new products to online virtual stores that sell them, the technology boom is affecting every aspect of marketing.

> **Samsung India** had an online campaign for the promotion of its lifestyle-focused "X Series" of Note PCs to its IT-savvy target consumers. The month-long viral marketing program had been in association with leading Web sites and email service providers Yahoo!, MSN, and Rediff. MSN messenger bar and all Yahoo! and Rediff email signatures carried live Samsung Note PC banners that take consumers through a demo run and a contest. Special newsletters were also sent to over 2 million Yahoo! and Rediff subscribers and pop-up ads were placed on relevant high-profile Web sites. The campaign reached out to 5 million unique consumers. Over 40 percent of the visitors returned to the site again.[21]

Digital and social media marketing
Using digital marketing tools such as Web sites, social media, mobile ads and apps, and blogs that engage consumers anywhere, at any time, via their digital devices.

Digital and mobile technology makes it fertile ground for marketers to engage customers. **Digital and social media marketing** involves using digital marketing tools such as Web sites, social media, mobile ads and apps, online video and other digital platforms that engage consumers anywhere, anytime via their computers, smartphones, tablets, Internet-ready TV, and other digital devices. Most traditional "brick-and-mortar" companies have become "click-and-mortar" companies. They have ventured online to attract new customers and build stronger relationships with existing ones. The Internet also spawned an entirely new breed of "click-only" companies—the so-called "dot-coms." Today, online consumer buying is growing at a healthy rate. Business-to-business e-commerce is also booming. It seems that almost every business has set up shop on the Web. Giants such as Sony, GE, Microsoft, Dell, Li & Fung, and many others have moved quickly to exploit the B2B power of the Internet.



Mobile marketing is on the rise as more Asians become affluent and digital friendly.

Rapid Globalization

In an increasingly smaller world, many marketers are now connected *globally* with their customers and marketing partners. Almost every company is touched in some way by global competition. The skillful marketing of Asian and European multinationals has challenged American firms. Companies such as Toyota, Sony, Samsung, Siemens, and Nestlé have often outperformed their U.S. competitors in American markets. Similarly, U.S. companies in a wide range of industries have developed truly global operations, making and selling their products worldwide. Coca-Cola offers a mind-boggling 400 different brands in more than 200 countries.

Today, companies are not only trying to sell more of their locally produced goods in international markets, they also are buying more supplies and components abroad. Asian businesses have benefitted from this outsourcing trend. China is the world's factory while India is home to many IT service providers.

Thus, managers worldwide are increasingly taking a global, not just local, view of the company's industry, competitors, and opportunities. They are asking: What is global marketing? How does it differ from domestic marketing? How do global competitors and forces affect our business? To what extent should we "go global"? **Real Marketing 1.1** gives insights on how to tackle the challenges when entering the Indian market.

Real Marketing 1.1

India: Conquering the Chaos

Ravi Venkatesan can stand up in front of an audience and speak for more than 30 minutes without referring to any notes on the challenges and rewards of doing business in India. His enthusiasm and in-depth knowledge of the market leaves many in his audience with the conclusion that he's quite bullish about the country's prospects. But Venkatesan has dismissed this assessment, describing himself as more of a pragmatist. "I differentiate between the realities of what it's like to do business there and live, which is pretty rough," he had stated in an interview at the National University of Singapore (NUS) Business School, "So as an Indian I'm guardedly hopeful, but I wouldn't necessarily characterize myself as an optimist on India's future." Venkatesan was responsible for designing products that delivered 70–80 percent value and performance but are priced at 30 percent their actual cost.

Ravi Venkatesan

Currently the independent director of Infosys®, Ravi Venkatesan was the chairman of Microsoft India Private Limited from 2004 to 2011, before which he headed the Indian arm of the American heavy equipment engineering firm Cummins Inc., so he knows what it takes to run a multinational company (MNC) in the country. Based on these experiences coupled with case studies from other successful MNCs in India, Venkatesan authored a book—*Conquering the Chaos: Win in India, Win Everywhere*. He said, "I use the word 'chaos' as shorthand for corruption, bureaucracy, uncertainty of policies and volatility, bad infrastructure, all that sort of stuff, that cocktail of things."

Venkatesan is of the opinion that companies that are keeping away from India until these "things" improve are doing themselves a disservice. Instead, MNCs that establish a foothold in the country and ride out the tough years will find themselves well-placed to take advantage of the good times when they come.

"Every decade over the last two or three decades there have been spurts where the economy has grown really well and it's sandwiched between six or seven years in every decade of relatively slower, muted growth," he had told the audience at the NUS Business School.

Long-term View

"If you're willing to take a long-term view and hang in there during the tough times like what we're going through right now, and sprint like crazy when the economy shows signs of life you can actually do very well."

One of Venkatesan's favorite examples is McDonald's. The world's largest hamburger chain had to create a new menu for the tastes and preferences of their target audience in the country, a significant percentage of who are vegetarian, developing a business model that allowed them to make money by charging about 50 cents per item.

He said adding uniquely Indian items, such as the McAloo Tikki Burger, Chicken Maharaja Mac, and Crispy Veggie Pops, to the McDonald's menu was a process that took at least seven years to put in place and required an investment of more than $100 million. Aside from taking a long-term view, Venkatesan listed other steps that MNCs can take to overcome the chaos. Among these was adapting to the Indian market rather than waiting for the market to adapt to the company's processes and strategies. Apple, for example, stood back, put off by an inefficient distribution system, lack of retail shops, and the low-wage population. On the other hand Samsung decided against waiting and they ate "Apple's lunch."

Companies can also learn from the example of Indian businesses operating on a shoestring budget and in particular the increasingly popular concept of frugal innovation.

Corruption Challenge

Even with all the best business practices in place, MNCs in India still need to overcome one of the biggest obstacles—corruption. However, using Transparency International's "heat index" on corruption, Venkatesan made the case that India is far from the only country beset by this problem. "Almost all emerging markets suffer from very high levels of corruption," he notes.

Venkatesan points out that it leaves CEOs with two choices; "You can say hey, I'm going to stay out of these countries and we'll be back when they're less corrupt.

Or you could say we've got to figure out how to build successful businesses in highly corrupt environments without sacrificing our values." The payoff of conquering the chaos in India is spelled out in the book's subtitle 'Win in India, Win Everywhere.' Venkatesan says all emerging markets are difficult, challenging, and chaotic places, but lessons learned in a market as big and potentially rewarding as India can also be applied in markets like Russia and Nigeria.

"Extremely successful companies have this view, hey, how can we be global if we aren't present in China, India and other such places? How can we be a leader in our industry if we're not a leader in a country with 1.2 billion people?"

It will be a bumpy ride, no doubt. But Venkatesan says it's one MNCs need to take. "It will take time, it may take longer than they ever imagined, but they understand why this is a prize worth winning."

Source

Katie Sargent, "India: Conquering the Chaos," Think Business, 10 September 2013. Partially reproduced with permission of Think Business, NUS Business School, National University of Singapore (http://thinkbusiness.nus.edu). Copyright NUS Business School.

❯ Ravi Venkatesan, often perceived as quite bullish because of his enthusiasm and in-depth knowledge of the Indian market, says all emerging markets are difficult, challenging, and chaotic, but lessons learned in a market as big and potentially rewarding as India can also be applied in markets like Russia and Nigeria.

Sustainable Marketing—The Call for More Environmental and Social Responsibility

Marketers are re-examining their relationships with social values and responsibilities and with the very Earth that sustains us. As the worldwide consumerism and environmentalism movements mature, today's marketers are being called upon to take greater responsibility for the social and environmental impacts of their actions. Few companies can ignore the renewed and very demanding environmental movement.

The social responsibility and environmental movements will place even stricter demands on companies in the future. Some companies resist these movements, budging only when forced by legislation or organized consumer outcries. More forward-looking companies, however, readily accept their responsibilities to the world around them. They view socially responsible actions as an opportunity to do well by doing good. They seek ways to profit by serving the best long-run interests of their customers and communities.

The Growth of Not-for-Profit Marketing

In the past, marketing was most widely applied in the for-profit business sector. In recent years, however, marketing has also become a major part of the strategies of many not-for-profit organizations, such as colleges, hospitals, museums, zoos, symphony orchestras, and even churches. Similarly, private colleges are using marketing to compete for students and funds. Many performing arts groups face huge operating deficits that they must cover by more aggressive donor marketing. Finally, many long-standing not-for-profit organizations—the YMCA and the Salvation Army—have lost members and are now modernizing their missions and "products" to attract more members and donors.

Government agencies have also shown an increased interest in marketing. For example, the Singapore government designs *social marketing campaigns* to encourage family growth and concern for the environment or to discourage smoking, excessive drinking, and drug use.

› Social campaigns such as *Filial Piety*, a television commercial by the Ministry of Community Development, Youth and Sports, apply marketing to instill and promote the value of filial piety among Singaporeans

So, What is Marketing? Pulling It All Together

At the start of this chapter, Figure 1.1 presented a simple model of the marketing process. Now that we've discussed all of the steps in the process, **Figure 1.11** presents an expanded model that will help you pull it all together. What is marketing? Simply put, marketing is the process of building profitable customer relationships by creating value for customers and capturing value in return.

The first four steps of the marketing process focus on creating value for customers. The company first gains a full understanding of the marketplace by researching customer needs and managing marketing information. It then designs a customer-driven marketing strategy based on the answers to two simple questions. The first question is "What consumers will we serve?" (market segmentation and targeting). Good marketing companies know that they cannot serve all customers in every way. Instead, they need

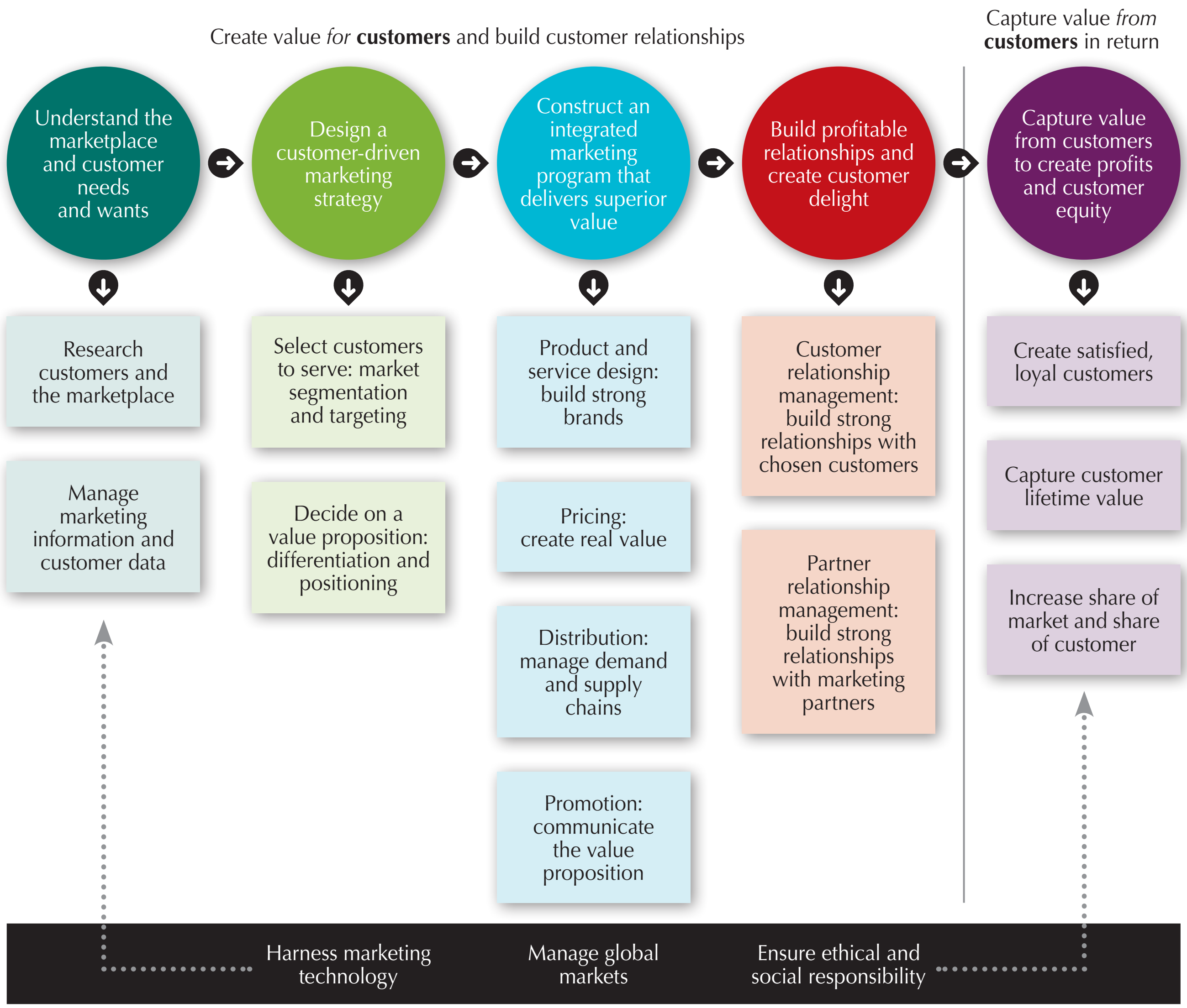


FIGURE 1.11
An expanded model of the marketing process

to focus their resources on the customers they can serve best and most profitably. The second marketing strategy question is "How can we best serve targeted customers?" (differentiation and positioning). Here, the marketer outlines a value proposition that spells out what values the company will deliver in order to win target customers.

With its marketing strategy decided, the company now constructs an integrated marketing program—consisting of a blend of the four marketing mix elements, or the four Ps—that transforms the marketing strategy into real value for customers. The company develops product offers and creates strong brand identities for them. It prices these offers to create real customer value and distributes the offers to make them available to target consumers. Finally, the company designs promotion programs that communicate the value proposition to target consumers and persuade them to act on the market offering.

Perhaps the most important step in the marketing process involves building value-laden, profitable relationships with target customers. Throughout the process, marketers practice customer relationship management to create customer satisfaction and delight. In creating customer value and relationships, the company must work closely with marketing partners both within the company and throughout the marketing system. Thus, beyond practicing good customer relationship management, firms must also practice good partner relationship management.

The first four steps in the marketing process create value *for* customers. In the final step, the company reaps the rewards of its strong customer relationships by capturing value *from* customers. Delivering superior customer value creates highly satisfied customers who will buy more and buy again. This helps the company to capture customer lifetime value and a greater share of the customer base. The result is increased long-term customer equity for the firm.

Finally, in the face of today's changing marketing landscape, companies must take into account three additional factors. In building customer and partner relationships, they must harness marketing technology, take advantage of global opportunities, and ensure that they act in an ethical and socially responsible way.

Figure 1.11 provides a good roadmap to future chapters of the text. Chapters 1 and 2 introduce the marketing process, with a focus on building customer relationships and capturing value from customers. Chapters 3, 4, 5, and 6 address the first step of the marketing process—understanding the marketing environment, managing marketing information, and understanding consumer and business buyer behavior. In Chapter 7, we look more deeply into the two major marketing strategy decisions: selecting which customers to serve (segmentation and targeting) and deciding on a value proposition (differentiation and positioning). Chapters 8 through 17 discuss the marketing mix variables, one by one. Chapter 18 sums up the customer-driven marketing strategy and creating competitive advantage in the marketplace. Then, the final two chapters examine special marketing considerations: global marketing, and marketing ethics and social responsibility.

Reviewing Objectives and Key Terms

Today's successful companies—whether large or small, for-profit or not-for-profit, domestic or global—share a strong customer focus and a heavy commitment to marketing. The goal of marketing is to build and manage profitable customer relationships. Marketing seeks to attract new customers by promising superior value and to keep and grow current customers by delivering satisfaction. Marketing operates within a dynamic global environment that can quickly make yesterday's winning strategies obsolete. To be successful, companies must be strongly market focused.

OBJECTIVE 1 Define marketing and outline the steps in the marketing process. (pp. 4–6)

Marketing is the process by which companies create value for customers and build strong customer relationships in order to capture value from customers in return.

The marketing process involves five steps. The first four steps create value for customers. First, marketers need to understand the marketplace and customer needs and wants. Next, marketers design a customer-driven marketing strategy with the goal of getting, keeping, and growing target customers. In the third step, marketers construct a marketing program that actually delivers superior value. All of these steps form the basis for the fourth step: building profitable customer relationships and creating customer delight. In the final step, the company reaps the rewards of strong customer relationships by capturing value from customers.

OBJECTIVE 2 Explain the importance of understanding customers and the marketplace, and identify the five core marketplace concepts. (pp. 6–9)

Outstanding marketing companies go to great lengths to learn about and understand their customers' needs, wants, and demands. This understanding helps them to design want-satisfying market offerings and build value-laden customer relationships by which they can capture customer lifetime value and a greater share of customers. The result is increased long-term customer equity for the firm.

The core marketplace concepts are needs, wants, and demands; market offerings (products, services, and experiences); value and satisfaction; exchange and relationships; and markets. Wants are the form taken by human needs when shaped by culture and individual personality. When backed by buying power, wants become demands. Companies address needs by putting forth a value proposition: a set of benefits that they promise to consumers to satisfy their needs. The value proposition is fulfilled through a market offering that delivers customer value and satisfaction, resulting in long-term exchange relationships with customers.

OBJECTIVE 3 Identify the key elements of a customer-driven marketing strategy and discuss marketing management orientations that guide marketing strategy. (pp. 9–15)

To design a winning marketing strategy, the company must first decide *whom* it will serve. It does this by dividing the market into segments of customers (*market segmentation*) and selecting which segments it will cultivate (*target marketing*). Next, the company must decide *how* it will serve targeted customers (how it will *differentiate* and *position* itself in the marketplace).

Marketing management can adopt one of five competing market orientations. The *production concept* holds that management's task is to improve production efficiency and bring down prices. The *product concept* holds that consumers favor products that offer the most in quality, performance, and innovative features; thus, little promotional effort is required. The *selling concept* holds that consumers will not buy enough of the organization's products unless it undertakes a large-scale selling and promotion effort. The *marketing concept* holds that achieving organizational goals depends on determining the needs and wants of target markets and delivering customer satisfaction more effectively and efficiently than competitors. The *societal marketing concept* holds that generating customer satisfaction and long-run societal well-being are the keys to both achieving the company's goals and fulfilling its responsibilities.

OBJECTIVE 4 Discuss customer relationship management, and identify strategies for creating value for customers and capturing value from customers in return. (pp. 15–24)

Broadly defined, *customer relationship management* is the process of building and maintaining profitable customer relationships by delivering superior customer value and satisfaction. The aim of customer relationship management is to produce high *customer equity*, the total combined customer lifetime values of all of the company's customers. The key to building lasting relationships is the creation of superior *customer value* and *satisfaction*.

Companies want not only to acquire profitable customers, but to build relationships that will keep them and grow their "share of customer." Different types of customers require different customer relationship management strategies. The marketer's aim is to build the *right relationships* with the *right customers*. In return for creating value *for* targeted customers, the company captures value *from* customers in the form of profits and customer equity.

In building customer relationships, good marketers realize that they cannot go it alone. They must work closely with marketing partners inside and outside the company. In addition to being good at customer relationship management, they must also be good at *partner relationship management*.

OBJECTIVE 5 Describe the major trends and forces that are changing the marketing landscape in this new age of relationships. (pp. 24–30)

As the world spins on, dramatic changes are occurring in the marketing arena. The boom in digital, telecommunications, information, transportation, and other technologies has created exciting new ways to learn about and track customers and to create products and services tailored to individual customer needs.

In an increasingly smaller world, many marketers are now connected *globally* with their customers and marketing partners. Today, almost every company, large or small, is touched in some way by global competition. Today's marketers are also re-examining their ethical and societal responsibilities. Marketers are being called upon to take greater responsibility for the social and environmental impacts of their actions. Finally, in the past, marketing was most widely applied in the for-profit business sector. In recent years, however, marketing also has become a major part of the strategies of many not-for-profit organizations, such as colleges, hospitals, museums, zoos, symphony orchestras, and even churches.

Pulling it all together, as discussed throughout the chapter, the major new developments in marketing can be summed up in a single word: *relationships*. Today, marketers of all kinds are taking advantage of new opportunities for building relationships with their customers, their marketing partners, and the world around them.

Key Terms

OBJECTIVE 1
Marketing (p 5)

OBJECTIVE 2
Needs (p 6)
Wants (p 6)
Demands (p 6)
Market offering (p 7)
Marketing myopia (p 7)
Exchange (p 8)
Market (p 8)

OBJECTIVE 3
Marketing management (p 9)
Production concept (p 11)
Product concept (p 11)
Selling concept (p 11)
Marketing concept (p 11)
Societal marketing concept (p 13)

OBJECTIVE 4
Customer relationship management (p 15)
Customer perceived value (p 16)
Customer satisfaction (p 17)
Consumer-generated marketing (p 20)
Partner relationship management (p 21)
Customer lifetime value (p 22)
Share of customer (p 22)
Customer equity (p 23)

OBJECTIVE 5
Internet (p 25)

Discussing the Concepts

1. What is marketing and what is its primary goal?
2. Compare and contrast customer needs, wants, and demands. Describe the need versus the want for the following products: iPad, Nintendo Wii, Qoo.
3. Explain how a company designs a customer-driven marketing strategy.
4. What are the different marketing management orientations? Which do you think your university adopts when marketing itself?
5. Explain the difference between share of customer and customer equity. Why are these concepts important to marketers?
6. How has the Internet changed consumers? Marketers?

Applying the Concepts

1. Ask five businesspeople from different industries (for example, food service, retailing, consumer-product manufacturing, industrial-product manufacturing, education, and so on) what they think marketing is. Evaluate their definitions and discuss whether or not they are consistent with the goal of creating customer value and managing profitable customer relationships.
2. In a small group, develop a marketing plan for your university or business school. Who is your target market? How will you enable them to get the best value? Define what you mean by value and develop the value proposition of your offering for this target market.
3. Define the different relationship levels companies can build with customers. Pick a local company in your country and describe the types of relationships you have with it.

Focus on Technology

In only a few short years, *consumer-generated marketing* has increased exponentially. It's also known as *consumer-generated media* and *consumer-generated content*. More than 100 million Web sites contain user-generated content. You may be a contributor yourself if you've ever posted something on a blog, reviewed a product at Amazon.com, uploaded a video on YouTube or sent a video from your mobile phone to a news Web site such as CNN.com or FoxNews.com. This force has not gone unnoticed by marketers—and with good reason. Nielsen, the TV ratings giant, found that most consumers trust consumer opinions posted online. As a result, savvy marketers encourage consumers to generate content. For example, Coca-Cola has more than 3.5 million fans on Facebook, mothers can share information at Pampers Village (www.pampers.com), and Dorito's scored a touchdown with consumer-created advertising during the past several Super Bowls. Apple even encourages iPhone users to develop applications for its device. However, consumer-generated marketing is not without problems—simply search "I hate (insert company name)" in any search engine!

1. Find two examples (other than those discussed in the chapter) of marketer-supported, consumer-generated content and two examples of consumer-generated content that is not officially supported by the company whose product is involved. Provide the Web link to each and discuss how the information impacts your attitude toward the companies involved. (AACSB: Communication; Reflective Thinking; Technology)
2. Discuss the advantages and disadvantages of consumer-generated marketing. (AACSB: Communication; Reflective)

Focus on Ethics

Sixty years ago, about 45 percent of Americans smoked cigarettes, but now the smoking rate is less than 20 percent. This decline results from acquired knowledge on the potential health dangers of smoking and marketing restrictions for this product. Although smoking rates are declining in most developed nations, however, more and more consumers in developing nations such as China are puffing away. China makes up one in three of the world's smokers. Some 36 percent of its population smokes, including 70 percent of Chinese men. Lung cancer is the biggest killer in China, beating road accidents. Smoker rates in some other countries run as high as 40 percent. Even in developed Asian countries such as Japan and Korea, smoker rates are high at 23.9 percent and 23.3 percent respectively. Developing nations account for more than 70 percent of world tobacco consumption, and marketers are fueling this growth. Most of these nations do not have the restrictions prevalent in developed nations, such as advertising bans, warning labels, and distribution restrictions. Consequently, it is predicted that 1 billion people worldwide will die this century from smoking-related ailments.

1. Given the extreme health risks, should marketers stop selling cigarettes even though they are legal and demanded by consumers? Should cigarette marketers continue to use marketing tactics that are restricted in one country in other countries where they are not restricted? (AACSB: Communication; Ethical Reasoning)
2. Do a brief research on the history of cigarette marketing in the U.S. Does your country have similar restrictions with respect to marketing this product? How does your country's regulations compare against that in the U.S.? (AACSB: Communication; Reflective Thinking)

Marketing & the Economy

Hershey's

During uncertain economic times, there are still some things that today's consumers just aren't willing to give up—such as chocolate. But as with eating out and clothing purchases, they *are* trading down. This is just fine with Hershey's, one of the best-known chocolate makers in the world. For years, riding the good times, premium chocolates grew faster than lower-priced confectionery products. Slow to jump on the premium bandwagon, Hershey's lost market share to Mars Inc.'s DOVE® Chocolate line. But as consumer frugality increased during the Great Recession, the sales of premium chocolate brands went flat. However, Hershey's sales, profits, and stock price increased as many consumers passed up higher-end goods in favor of Hershey's chocolate bars, Reese's Peanut Butter Cups, and Kit Kat wafers. Hershey's seized the opportunity of this trend by running new ads that stressed their value. It also cut costs by paring back the varieties of products such as Hershey's Kisses. As supermarkets reduced the shelf space they allotted to premium chocolates, Hershey's cashed in as consumers looked to affordable Hershey's favorites to satisfy their cravings. After all, even on a tight budget, people need to indulge at least a little.

1. Is Hershey's resurgence based on a want or a need?
2. Evaluate the shift in chocolate sales based on the benefits and costs that customers perceive.
3. What other products are harmed or helped by the new consumer frugality?

Marketing by the Numbers

Marketing is expensive! A 30-second advertising spot during the 2010 Super Bowl cost $3 million, which doesn't include the $500,000 or more necessary to produce the commercial. Anheuser-Busch usually purchases multiple spots each year. Similarly, sponsoring one car during one NASCAR race costs $500,000. But Sprint, the sponsor of the popular Sprint Cup, pays much more than that. What marketer sponsors only one car for only one race? Do you want customers to order your product by phone? That will cost you $8–$13 per order. Do you want a sales representative calling on customers? That's about $100 per sales call, and that's if the rep doesn't have to get on an airplane and stay in a hotel, which can be very costly considering some companies have thousands of sales reps calling on thousands of customers. What about the $1-off coupon for Tropicana orange juice that you found in the Sunday newspaper? It costs Tropicana more than $1 when you redeem it at the store. These are all examples of just one marketing element—promotion. Marketing costs also include the costs of product research and development (R&D), the costs of distributing products to buyers, and the costs of all the employees working in marketing.

1. Select a publicly traded company and research how much the company spent on marketing activities in the most recent year of available data. What percentage of sales do marketing expenditures represent? Have these expenditures increased or decreased over the past five years? Write a brief report of your findings. (AACSB: Communication; Analytic Reasoning)
2. Search the Internet for salary information regarding jobs in marketing. What is the national average for five different jobs in marketing? How do the averages compare in different areas of the country? Write a brief report on your findings. (AACSB: Communication; Use of IT; Reflective Thinking)

Video Case

Stew Leonard's

Stew Leonard's is a little-known grocery store chain based in Connecticut. It has only four stores. But its small number of locations doesn't begin to illustrate what customers experience when they visit what has been called the "Disneyland of dairy stores." Since opening its first dairy store in 1969, the company has been known for its customer-centric way of doing business. In fact, founder Stew Leonard's obsession with the concept of customer lifetime value made him determined to keep every customer who entered his store. The video featuring Stew Leonard's shows how the retailer has delighted customers for more than 40 years. With singing animatronics farm animals, associates in costume, petting zoos, and free food and drink samples, this chain serves as many as 300,000 customers per store every week and has achieved the highest sales per square foot of any single store in the United States. After viewing the video, answer the following questions about the company.

1. What is Stew Leonard's value proposition?
2. How does Stew Leonard's build long-term customer relationships?
3. How has Stew Leonard's applied the concepts of customer equity and customer lifetime value?

Company Case

McDonald's in the Philippines: Stung by the Bee

McDonald's opened its first restaurant in the Philippines in 1981, when George T. Yang, an entrepreneur of Chinese descent and a Wharton graduate, launched the fast-food phenomenon in a joint venture with the U.S.-based McDonald's Corporation.

The Philippines, with its four-decade history as an American-occupied territory, is a huge fan of American culture. Several American restaurant franchises have been well-received here, and Yang was confident that McDonald's would do well too. Introducing the Big Mac experience to the Philippines was seen as something of a revolution in the local dining industry. It offered consumers a taste of McDonald's Quarter Pounder™, the World Famous Fries™ and Coke McFloat®. Apart from the fast-food fiesta, McDonald's also provided quick service, a clean environment, and a young-and-upbeat staff. In 2005, the business became a fully owned Filipino enterprise.

However, the McDonald's journey hasn't been all smooth sailing. A local company called Jollibee, which turned its ice cream parlor into a burger joint has been stinging McDonald's in the Philippines ever since it was opened. Jollibee, which was founded by Filipino entrepreneur Tony Tan Caktiong in 1978, is often referred to as Asia's response to McDonald's.

With more than 31,000 outlets in over 100 countries, of which 3,000 are in Asia, and their vast experience, one would think McDonald's would easily surpass its regional brands; however, Jollibee has surfaced as its biggest competitor. Having heard that McDonald's was coming to the Philippines, Tan traveled to the United States to get a better understanding of Jollibee's competitors.

Just before McDonald's was launched, Jollibee offered consumers a menu similar to McDonald's but adapted it to suit the Filipino palate and priced the items lower. Unlike the Americans, Filipinos don't like pure-beef patties as they consider them to be bland. Catering to the local tastes and preferences, Jollibee ensures that their patties have a stronger flavor, usually with more garlic, onion, and celery. One of its popular dishes is Chickenjoy, which is a serving of fried chicken and rice with a generous helping of chili powder. Its fries are dry on the inside and taste like they have been fried several times over, just the way the primary consumers like it. Other items on their menu include Jolly Spaghetti, which is spaghetti served with sweet meat sauce and hotdog slices, and its signature deep-fried mango pie, which is in a better position to take on McDonald's apple pie. Even its mascot, Jolly Bee, epitomizes the Filipino spirit of lighthearted, everyday happiness and is more endearing to the Filipinos than Ronald McDonald.

Unlike Jollibee, McDonald's remained largely faithful to its core menu. According to Yang, initial sales were astounding. However, it became apparent that localization was necessary to win the Filipinos over and beat the competition. Yang lobbied to integrate local flavors into the menu. As a result, in 1986 McDonald's Philippines introduced McSpaghetti, which was a take on the Filipinos' distinct version of spaghetti. The following years saw new items on the menu, including the Chicken McDo and the Burger McDo in 1993.

Such localization has seen some success. In the Philippines, McDonald's has been affectionately given a nickname, McDo. Several of the catchphrases in its commercials have found their way into local lexicon—"Kita-kits" from "Kita-kits sa McDo," a phrase in one of its early commercials, was adopted by locals as a short way for saying "See you there."

Marketing to the smartphone-savvy Filipinos, McDonald's has launched several apps. The McDo PH app, with its "Never Miss a Craving" tagline, was built to make McDelivery more accessible. In 2014, McDonald's collaborated with Coca-Cola to launch the BFF Timeout App, a gaming app that challenges players to go on a "digital timeout" with their best friends. The longer they can go through life without digital interruptions, such as checking their mobile phones, the more points and badges the players get. Best friends can even win free trips through the app. Innovation has also helped McDonald's promote its sales. The Fry Holder, launched in 2014, can be placed in cars to hold fries, allowing drivers to have a hassle-free, eat-on-the-go experience.

Despite these adaptations, innovations, investments, and the brand's heritage, McDonald's still lags behind Jollibee. The latter has over 750 stores nationwide compared to McDonald's 400, around twice in terms of store-count market share. Other fast-food chains, such as Wendy's and Burger King, have about 250 collectively. According to Forbes Asia, Jollibee controls some 18 percent of the market in Metro Manila, beating McDonald's 10 percent. Jollibee is reportedly also ranked higher than McDonald's when it comes to courtesy and service.

In light of the sting, Kenneth S. Yang, President and CEO, ponders on how he can remedy the situation.

Questions for Discussion

1. How does remaining faithful to its core menu jeopardize McDonald's success in the Philippines? Does this make McDonald's less marketing oriented?
2. Is adaptation to local culture always important? Why do you think it is so in the case of the fast food industry?
3. What can McDonald's do to win customers over?
4. What can Jollibee do to thwart McDonald's challenges?

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❯ The McDonald's delivery guy: In cities like Beijing, Seoul, and Cairo, armies of motorbike delivery drivers outfitted in colorful uniforms and bearing food in specially designed boxes strapped to their backs make their way through bustling traffic to deliver Big Macs.

Objective Outline

OBJECTIVE 1

Explain company-wide strategic planning and its four steps.

Company-Wide Strategic Planning: Defining Marketing's Role (41–45)

OBJECTIVE 2

Discuss how to design business portfolios and develop growth strategies.

Designing the Business Portfolio (46–52)

OBJECTIVE 3

Explain marketing's role in strategic planning and how marketing works with its partners to create and deliver customer value.

Planning Marketing: Partnering to Build Customer Relationships (52–54)

OBJECTIVE 4

Describe the elements of a customer-driven marketing strategy and mix and the forces that influence it.

Marketing Strategy and the Marketing Mix (54–58)

OBJECTIVE 5

List the marketing management functions, including the elements of a marketing plan, and discuss the importance of measuring and managing return on marketing investment.

Managing the Marketing Effort (59–63)

Measuring and Managing Return on Marketing Investment (63–64)

Chapter 2

Company and Marketing Strategy: Partnering to Build Customer Relationships

Previewing the Concepts

In the first chapter, we explored the marketing process by which companies create value for consumers to capture value in return. In this chapter, we examine steps two and three of the marketing process—designing customer-driven marketing strategies and constructing marketing programs. To begin with, we look at the organization's overall strategic planning. Next, we discuss how marketers, guided by the strategic plan, partner closely with others within and outside the firm to create value for customers. We then examine marketing strategy and planning—how marketers choose target markets, position their market offerings, develop a marketing mix, and manage their marketing programs. Finally, we examine the important step of measuring and managing return on marketing investment.

Let's look first at QB House. QB House has changed the haircutting landscape by taking on the bigger and more expensive hairstyling salons with quick and cheap haircuts. Competitors have since joined in the fray, and QB House has to keep finding fresh ways to bring value to its customers.

QB House: Going Against Convention

QB House ("Quick Beauty," formerly "Quick Barber") was founded by a Japanese pharmaceutical salesperson, Kuniyoshi Konishi. QB House has been a phenomenal success. In 1997, it started out with just four outlets serving 57 customers and by 2014, QB House had a customer base of over 14,500 customers in Japan with 480 outlets. It ventured overseas in 2005 and has outlets in Hong Kong, Singapore, and Taiwan. As of 2014, QB House had 85 outlets outside Japan serving almost 2,500 customers.

It all started when Konishi was frustrated with the time it took to get a haircut. During a visit to a local hair salon, Konishi had to sit through an hour long ritual that involved consultations, hot towels, shoulder rubs,

> QB House viewed itself as the pioneer of the "time industry," in which it saves customers' time so that they have more time to enjoy their personal lives.

and other hairstyling rituals. This entire service cost a customer an exorbitant 5,000 yen. Much of this money goes towards the hairstylist's wardrobe and modish premises.

Konishi decided it was time to cut to the chase and change the rules by offering a quick cut-only service in a cheap yet efficient and clean haircutting salon. For this purpose, he conducted a survey, with results indicating that almost 36 percent of Japanese would welcome this concept.

Konishi decided to launch QB, with his targeting audience comprising those who did not have access to such a facility before—office workers, couples who have children and schedules to keep to, consumers who do not want to pay for elaborate hairdos, and the elderly.

The focus of the new idea was the "10 Minutes, Just Cut" service. To keep this promise, QB ignored the traditional rules of designing a barber shop and instead based it on the design subsidiary of Mazda. This was aimed at minimizing the time taken by a barber in walking from one spot within the store to another while working. The design ensures that everything is within easy reach. For instance, the cupboard facing the barber's chair has a coat hanger and sufficient space for a briefcase or handbag. These layouts are standardized so that every barber can move with equal ease in different QB outlets and, thus, are always ready to work.

Konishi also ensured that a QB House doesn't have any telephones. This is aimed at reducing distractions for barbers when serving a client. Another new aspect introduced by the QB House was that there is no handling of money. The only service offered would be cutting of hair and there was only one price—1,000 yen. And the process was pretty simple. On arrival, a customer inserts a 1,000-yen note in a machine that issues a ticket. The customer then surrenders this ticket to the barber when they are seated in a chair. The QB House has no receptionist, no cash register, and no change is given.

As a part of its strategy, the QB House does not incorporate a reservation system. Outside each shop is a traffic signal; a green light indicates that a customer can expect immediate service, a yellow light implies a waiting period of five minutes, and a red light means that a customer must wait for 15 minutes.

To keep its costs low, QB House has no toilets. The 10-minute haircutting service doesn't allow for such breaks. There are also no reading materials, no television in the stores, and no water supply. Hence, there is no shaving or shampooing. After each haircut customers are given disposable combs, which are cheaper than having to wash, sterilize, and reuse combs.

Cleaning up and disposal of waste hair is addressed by fitting the barber's chair with a compartment under it, into which hair is swept after each haircut. A vacuum device is used to remove loose hair from a customer's shoulders, neck, and clothes.

Data collected from customer feedback is recorded to establish the market profile for each outlet. The gender and approximate age of each customer are entered into QB's database by the staff, along with comments about the day's weather. All data is then transferred to a data center. Supplies are directly related to customers; the data collected is indicative of how much products are being used. The suppliers for QB House are automatically alerted through a data link when QBs inventory drops to a certain level and require replenishment. QB House has also established its own training school, run by hairstylists with international experience.

Clearly, with its "10 Minutes, Just Cut" service, QB House has turned barber shops from being just a traditional industry to a functional one as well. The company views itself as the pioneer of the "time industry," in which it saves customers time to enjoy their personal lives.

It has expanded to two other brands—Ikka (which means "family" in Japanese) and FaSS (which stands for "Fast Salon for Slow Life"). Ikka is catered to families with children so that they can have their haircut in a private room with parents relaxing close to their child. FaSS is targeted at men and women aged 20 to 40 years old who enjoy a home atmosphere. Customization services such as cutting only the fringes or hair styling are offered.[1]

Marketing strategies and programs are guided by broader, company-wide strategic plans. Thus, to understand the role of marketing, we must first understand the organization's overall strategic planning process. Companies must look ahead and develop long-term strategies to meet the changing conditions in their industries and ensure long-term survival.

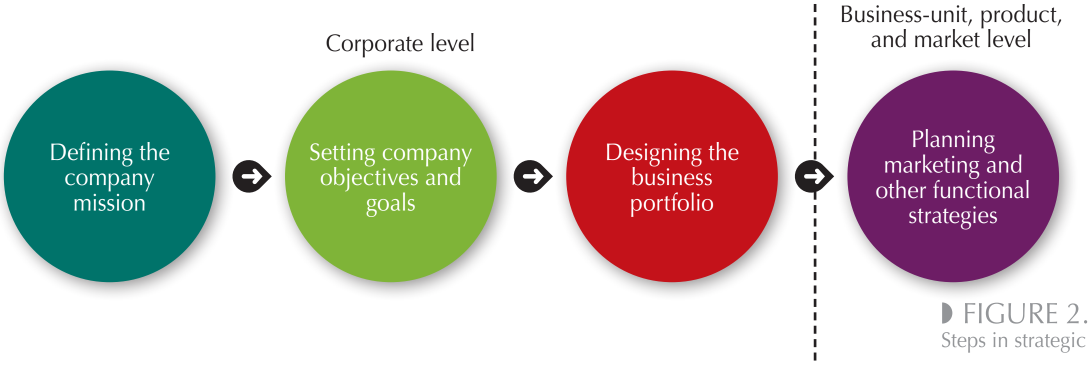

FIGURE 2.1
Steps in strategic planning

Company-Wide Strategic Planning: Defining Marketing's Role

Each company must find the game plan for long-run survival and growth that makes the most sense given its specific situation, opportunities, objectives, and resources. This is the focus of **strategic planning**—the process of developing and maintaining a strategic fit between the organization's goals and capabilities and its changing marketing opportunities.

At the corporate level, the company starts the strategic planning process by defining its overall purpose and mission (see **Figure 2.1**). This mission is then turned into detailed supporting objectives that guide the whole company. Next, the company's headquarters decides what portfolio of businesses and products is best for the company and how much support to give each one. In turn, each business and product develops detailed marketing and other departmental plans that support the company-wide plan. Thus, marketing planning occurs at the business-unit, product, and market levels. It supports company strategic planning with more detailed plans for specific marketing opportunities.[2]

Strategic planning
The process of developing and maintaining a strategic fit between the organization's goals and capabilities and its changing market opportunities.

Defining a Market-Oriented Mission

Mission statement
A statement of the organization's purpose—what it wants to accomplish in the larger environment.

A **mission statement** is a statement of the organization's purpose—what it wants to accomplish in the larger environment. A clear mission statement acts as an "invisible hand" that guides people in the organization and answers questions such as: What is our business? Who is the customer? What do consumers value? What *should* our business be?

Some companies define their missions myopically in product- or technology-centered terms ("We make and sell furniture" or "We are a chemical-processing firm"). But mission statements should be *market oriented* and defined in terms of customer needs (see **Figure 2.2**). Products and technologies eventually become outdated, but basic market needs may last forever.

FIGURE 2.2
Characteristics of a good mission statement

Samsung aims to contribute to the society by offering superior products.

A market-oriented mission statement defines the business in terms of satisfying basic customer needs. For example, Nike isn't just a shoe and apparel manufacturer—it wants "to bring inspiration and innovation to every athlete* in the world. (*If you have a body, you are an athlete.)" Likewise, Taobao's mission isn't simply to hold online auctions and trading. Its catchphrase is "there is no treasure that cannot be hunted out" and shoppers can buy almost anything there. It wants to be a unique Web community in which people can shop around, have fun, and get to know each other. **Table 2.1** provides several other examples of product-oriented versus market-oriented business definitions.[3]

Missions should fit the *market environment*. Thus, with the growing digital influence, Sony has set forth to integrate computers with its entertainment products and yet provide a human touch in these products. The organization should also base its mission on its *distinctive competencies*. Finally, mission statements should be *motivating*. A company's mission should not be stated as making more sales or profits; profits are only a reward for undertaking a useful activity. A company's employees need to feel that their work is significant and that it contributes to people's lives. Thus, Samsung's mission statement incorporates the notion of improving society: "We will devote our people and technology to create superior products and services, thereby contributing to a better global society."

Japanese clothing retailer UNIQLO isn't about being "the world's cheapest clothing store"; it is "to be our customers' favorite value-for-money place to shop." If UNIQLO accomplishes its customer-oriented mission, profits will follow (see **Real Marketing 2.1**).

TABLE 2.1 Market-Oriented Business Definitions

Company	Product-Oriented Definition	Market-Oriented Definition
Amazon.com	We sell books, videos, CDs, toys, consumer electronics, hardware, housewares, and other products.	We make the Internet buying experience fast, easy, and enjoyable—we're the place where you can find and discover anything you want to buy online.
Baidu	We provide China's best online search engine.	We help organize the world's information and make it accessible and useful to Chinese.
eBay	We hold online auctions.	We provide a global marketplace where practically anyone can trade practically anything—a unique Web community in which people can shop around, have fun, and get to know each other.
Shiseido	We make cosmetics.	We sell lifestyle and self-expression; success and status; memories, hopes, and dreams.
Shangri-La Hotels	We rent rooms.	We create the Shangri-La experience—one that enlivens the senses, instills well-being, and fulfills even the unexpressed wishes and needs of our guests.
Wal-Mart	We run discount stores.	We deliver low prices every day and give ordinary folks the chance to buy the same things as rich people.

Setting Company Objectives and Goals

The company needs to turn its mission into detailed supporting objectives for each level of management. Each manager should have objectives and be responsible for reaching them. For example, Monsanto operates in the agricultural biotechnology business. It defines its mission as "improving the future of farming … improving the future of food … abundantly and safely." It seeks to help feed the world's exploding population while at the same time sustaining the environment. Monsanto ads ask us to "Imagine innovative agriculture that creates incredible things today."

This mission leads to a hierarchy of objectives, including business objectives and marketing objectives. Monsanto's overall objective is to build profitable customer relationships by developing better agricultural products and getting them to market faster at lower costs. It does this by researching products that safely help crops produce more nutrition and higher yields without chemical spraying. But research is expensive and requires improved profits to be plowed back into research programs. So improving profits becomes another major Monsanto objective. Profits can be improved by increasing sales or reducing costs. Sales can be increased by improving the company's share of the U.S. market, by entering new foreign markets, or both. These goals then become the company's current marketing objectives.[4]

China's online search engine, Baidu, aims to organize information and make it accessible and useful to the chinese.

Monsanto defines its mission as "improving the future of farming ... improving the future of food ... abundantly and safely." Its ads ask us to "Imagine innovative agriculture that creates incredible things today." This mission leads to specific business and marketing objectives.

Real Marketing 2.1

UNIQLO:
The Thrifty Route in Fashion

Japanese consumers are known to be the most demanding in the world. They have a strong preference for quality and luxury products are a must-have. But amid a sharp economic slowdown, price is finally beginning to take priority for many shoppers who are worried about their job. Luxury products have lost their luster as more Japanese now take the thrifty route in fashion. Gone are the days of the 1980s and 1990s, when they spent generously on imported branded items.

In early 2009, clothing retailer UNIQLO introduced its blockbuster jeans for 990 yen ($10.70). Frugal and bargain-hunting Japanese were enthusiastically acquiring this piece of UNIQLO's eclectic style of affordable fashion. Such frugality is likely to be more than a fad as the Japanese are showing good appetites for value-for-money products. The phenomenal growth of UNIQLO is proof that the era of austerity is taking hold.

UNIQLO is a well-storied brand known for its low-cost fleeces and T-shirts. Founded by the Yamaguchi-based company Ogori Shoji in 1949, the store originally sold men's clothing until 1984, when they opened a unisex casual wear store in Hiroshima under the name "Unique Clothing Warehouse." It was at this time that the brand name UNIQLO was born, as a short form for "unique clothing." By 1994, there were over 100 UNIQLO stores operating throughout Japan.

Its first urban store in Tokyo's trendy Harajuku district proved such a success that more outlets sprouted in major cities in Japan. With over 500 retail outlets in Japan then, UNIQLO expanded overseas and in 2001, opened its first outlet in London, England and then in Shanghai, China. More overseas stores opened in the United States and in Hong Kong. In 2010, UNIQLO also opened stores in Kuala Lumpur, Malaysia and Taipei, Taiwan. In a global marketplace with increasingly pragmatic consumers, UNIQLO has indeed become a favored clothing retailer, serving its value-conscious fans worldwide.

As a cheap and chic brand that is popular with design-conscious Japanese youths, UNIQLO is now catering

› The new consumer frugality: Even the fashion-conscious youths of Japan have been drawn in by "cheap chic" apparel stores such as UNIQLO.

to trendsetters outside Japan. Its presence is felt as a flagship store opened in the world's fashion capital, Paris. UNIQLO has to compete with fast-moving contenders such as Esprit, Zara, Mango, and H&M. Will all these brands be able to incite customers to buy fashion items more regularly?

The new era of frugality means that these brands must clearly spell out their value propositions so that customers are willing to part with their hard-earned money. H&M's recession-friendly proposition of fast fashion at affordable prices has helped the brand to weather the economic crisis—so much so that UNIQLO is planning an aggressive expansion into Southeast Asia, including Malaysia.

On the other hand, Esprit professes to be an international youthful lifestyle brand offering smart, affordable luxury items.

Still, UNIQLO's appeal remains strong. Besides offering discounts on top of already affordable prices, it attracts a wide consumer base by providing basic, essential garments that are high on quality.

The billionaire owner of UNIQLO, Tadashi Yanai, is proud to claim that his brand offers exceptionally high quality at a relatively low price to his customers. His dream is for UNIQLO to become the biggest maker and retailer of fashion in the world.

He also believes that UNIQLO allows a customer to combine each unit of clothing to express his or her personality. Indeed, the immense popularity of UNIQLO, especially in Japan, is propelled not just by a frugality route in consumption, it is also fueled by a new generation of confident fashionistas who are happy to creatively mix and match and don non-luxury items as a form of self-expression. UNIQLO collaborated with the fashion designer Jil Sander to create a collection named "+J," which sold out in most countries in the first week. With this launch brought a whole new demographic of customers as they sought to buy Jil Sander–designed products at UNIQLO prices.

In a recessionary environment, many consumers are taking pride in being able to discern between buying to fulfill a need and a want and adopting a back-to-basics mentality. Others will constantly search for affordable ways to indulge in an attempt to lessen the stress of worrying about escalating living expenses. Companies and brands stimulate purchases by making it clear to the consumers how their products are totally relevant to the purchasers' needs and that their offerings are worthy of their every cent.

While the shopping mood is one of caution and lower-priced smart wear is the ongoing preference of enlightened trendy shoppers, the UNIQLO chain still enjoys brisk sales in Asia. It is putting top priority in the Asian market as it aims to boost global sales to 5 trillion yen ($54 billion) with 4,000 stores by 2020.

Meanwhile, having entered China in 2002, UNIQLO plans to open more stores across major cities in China. It has also entered the Singapore market with great aplomb, needing crowd control measures to ease the flow of human traffic when the stores opened. In September 2016, UNIQLO opened its southeast Asian flagship store at Orchard Central Singapore.

In 2016, UNIQLO operates over 3,000 stores globally, including over 830 stores in Japan, 472 stores in China, and about 400 stores in the rest of Asia.

As customers fervently scour UNIQLO outlets for the latest fashion, they can be assured that the brand offers quality merchandise that is good value for the money. In the new environment, when cheap and chic also means looking and feeling good, UNIQLO has certainly found the best cut in the fabric.

Sources

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Marketing strategies and programs must be developed to support these marketing objectives. To increase its U.S. market share, Monsanto might increase its products' availability and promotion. To enter new foreign markets, the company may cut prices and target large farms abroad. These are its broad marketing strategies which can be defined in greater detail. For example, increasing the product's promotion may require more salespeople and more advertising; if so, both requirements need to be spelled out. In this way, the firm's mission is translated into a set of objectives for the current period.

Designing the Business Portfolio

Business portfolio
The collection of businesses and products that make up the company.

Guided by the company's mission statement and objectives, management now must plan its **business portfolio** — the collection of businesses and products that make up the company. The best business portfolio is one that best fits the company's strengths and weaknesses to opportunities in the environment. Business portfolio planning involves two steps:

- Analyzing its *current* business portfolio and deciding which businesses should receive more, less, or no investment.
- Shaping the *future* portfolio by developing strategies for growth and downsizing.

Analyzing the Current Business Portfolio

Portfolio analysis
The process by which management evaluates the products and businesses that make up the company.

The major activity in strategic planning is business **portfolio analysis**, whereby management evaluates the products and businesses making up the company. The company will want to put strong resources into its more profitable businesses and phase down or drop its weaker ones.

Management's first step is to identify the key businesses making up the company. These can be called the strategic business units. A *strategic business unit* (SBU) is a unit of the company that has a separate mission and objectives and that can be planned independently from other company businesses. An SBU can be a company division, a product line within a division, or a single product or brand.

The next step in business portfolio analysis calls for management to assess the attractiveness of its various SBUs and decide how much support each deserves. It is usually a good idea to focus on adding products and businesses that fit closely with the firm's core philosophy and competencies.

The purpose of strategic planning is to find ways in which the company can best use its strengths to take advantage of attractive opportunities in the environment. Most standard portfolio-analysis methods evaluate SBUs on two important dimensions: (1) the attractiveness of the SBU's market or industry and (2) the strength of the SBU's position in that market or industry. The best-known portfolio-planning method was developed by the Boston Consulting Group, a leading management consulting firm.[5]

The Boston Consulting Group Approach

Growth–share matrix
A portfolio-planning method that evaluates a company's strategic business units in terms of their market growth rate and relative market share. SBUs are classified as stars, cash cows, question marks, or dogs.

Using the Boston Consulting Group (BCG) approach, a company classifies all its SBUs according to the **growth–share matrix** shown in **Figure 2.3**. On the vertical axis, *market growth rate* provides a measure of market attractiveness. On the horizontal axis, *relative market share* serves as a measure of company strength in the market. The growth–share matrix defines four types of SBUs:

- *Stars* are high-growth, high-share businesses or products. They often need heavy investment to finance their rapid growth. Eventually their growth will slow down, and they will turn into cash cows.
- *Cash cows* are low-growth, high-share businesses or products. These established and successful SBUs need less investment to hold their market

share. Thus, they produce a lot of cash that the company uses to pay its bills and to support other SBUs that need investment.

- *Question marks* are low-share business units in high-growth markets. They require a lot of cash to hold their share, let alone increase it. Management needs to think hard about which question marks it should try to build into stars and which should be phased out.
- *Dogs* are low-growth, low-share businesses and products. They may generate enough cash to maintain themselves but do not promise to be large sources of cash.

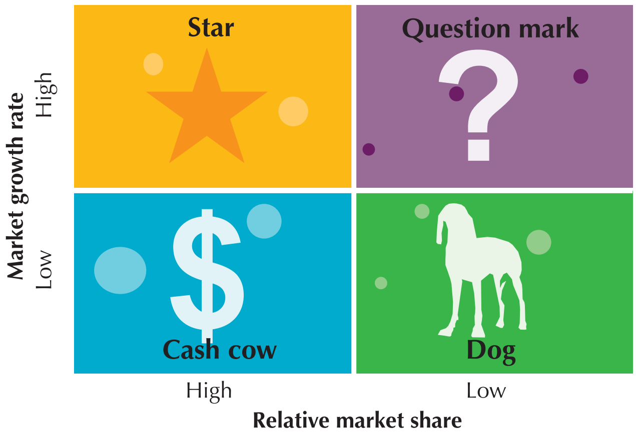

FIGURE 2.3
The BCG growth–share matrix

The circles in the growth–share matrix represent a company's current SBUs. The company has two stars, two cash cows, three question marks, and three dogs. The areas of the circles are proportional to the SBU's dollar sales. This company is in fair shape, although not in good shape. It wants to invest in the more promising question marks to make them stars and to maintain the stars so that they will become cash cows as their markets mature. Fortunately, it has two good-sized cash cows. Income from these cash cows will help finance the company's question marks, stars, and dogs. The company should take some decisive action concerning its dogs and its question marks. The picture would be worse if the company had no stars, if it had too many dogs, or if it had only one weak cash cow.

Once it has classified its SBUs, the company must determine what role each will play in the future. One of four strategies can be pursued for each SBU. The company can invest more in the business unit in order to *build* its share. Or it can invest just enough to *hold* the SBU's share at the current level. It can *harvest* the SBU, milking its short-term cash flow regardless of the long-term effect. Finally, the company can *divest* the SBU by selling it or phasing it out and using the resources elsewhere.

As time passes, SBUs change their positions in the growth–share matrix. Each SBU has a life cycle. Many SBUs start out as question marks and move into the star category if they succeed. They later become cash cows as market growth falls, then finally die off or turn into dogs toward the end of their life cycle. The company needs to add new products and units continuously so that some of them will become stars and, eventually, cash cows that will help finance other SBUs.

Problems with Matrix Approaches

The BCG and other formal methods revolutionized strategic planning. However, such centralized approaches have limitations. They can be difficult, time consuming, and costly to implement. Management may find it difficult to define SBUs and measure market share and growth. In addition, these approaches focus on classifying *current* businesses but provide little advice for *future* planning.

Formal planning approaches can also place too much emphasis on market share growth or growth through entry into attractive new markets. Using these approaches, many companies plunged into unrelated and new high-growth businesses that they did not know how to manage—with very bad results. At the same time, these companies were often too quick to abandon, sell, or milk to death their healthy mature businesses. As a result, many companies that diversified too broadly in the past have narrowed their focus and gotten back to the basics of serving the one or few industries that they know best.

Because of such problems, many companies have dropped formal matrix methods in favor of more customized approaches that are better suited to their specific situations. Moreover, unlike former strategic planning efforts, which rested mostly in the hands of senior managers at company headquarters, today's strategic planning has been decentralized. Increasingly, companies are placing responsibility for strategic planning in the hands of cross-functional teams of divisional managers who are close to their markets.

For example, consider The Walt Disney Company. Most people think of Disney as theme parks and wholesome family entertainment. But in the mid-1980s, Disney set up a powerful, centralized strategic planning group to guide the company's direction and growth. Over the next two decades, the strategic planning group turned The Walt Disney Company into a huge but diverse collection of media and entertainment businesses. The transformed company proved hard to manage and performed unevenly. Disney then disbanded the centralized strategic planning unit, decentralizing its functions to divisional managers.

Developing Strategies for Growth and Downsizing

Beyond evaluating current businesses, designing the business portfolio involves finding businesses and products the company should consider in the future. Companies need profitable growth if they are to compete more effectively, satisfy their stakeholders, and attract top talent.

Marketing has the main responsibility for achieving profitable growth for the company. Marketing must identify, evaluate, and select market opportunities and lay down strategies for capturing them. One useful device for identifying growth opportunities is the **product/market expansion grid**, shown in **Figure 2.4**.[6] We apply it here to Starbucks:

Product/market expansion grid
A portfolio-planning tool for identifying company growth opportunities through market penetration, market development, product development, or diversification.

	Existing products	New products
Existing markets	Market penetration	Product development
New markets	Market development	Diversification

FIGURE 2.4
The product/market expansion grid

Strategies for growth – To maintain its phenomenal growth in an increasingly overcaffeinated marketplace, Starbucks has brewed up an ambitious multipronged growth strategy.

Starbucks – More than 20 years ago, Howard Schultz hit on the idea of bringing a European-style coffee house to America. People needed to slow down, he believed—to "smell the coffee" and enjoy life a little more. The result was Starbucks. This coffee house doesn't sell just coffee, it sells *The Starbucks Experience*. "There's the Starbucks ambience," notes an analyst, "The music. The comfy velvety chairs. The smells. The hissing steam." Says Starbucks Chairman Schultz, "We aren't in the coffee business, serving people. We are in the people business, serving coffee." People around the globe now flock to Starbucks, making it a powerhouse premium brand. Some 35 million customers now visit the company's more than 22,500 stores worldwide each week. Starbucks gives customers what it calls a "third place"—away from home and away from work.

Starbucks' success, however, has drawn a litter of copycats, ranging from direct competitors such as Coffee Bean and Tea Leaves to fast-food merchants (such as McDonald's McCafé). To maintain its growth in an increasingly overcaffeinated marketplace, Starbucks must brew up an ambitious, multipronged growth strategy.

First, Starbucks' management might consider whether the company can achieve deeper **market penetration**—making more sales to current customers without changing its products. It might add new stores in current market areas to make it easier for more customers to visit. Improvements in advertising, prices, service, menu selection, or store design might encourage customers to stop by more often, stay longer, or to buy more during each visit. For example, in the United States Starbucks has added drive-through windows to many of its stores. A Starbucks Card lets customers prepay for coffee and snacks or give the gift of Starbucks to family and friends. And to get customers to hang around longer, Starbucks offers wireless Internet access in most of its stores.

Second, Starbucks' management might consider possibilities for **market development**—identifying and developing new markets for its current products. For instance, managers could review new *demographic markets.* Perhaps new groups, such as seniors or ethnic groups, could be encouraged to visit Starbucks coffee shops for the first time or to buy more from them. Managers also could review new *geographical markets*. Starbucks opened its first store outside North America in Japan. From only 11 coffeehouses outside North America in 1996, it now has more than 22,500 stores worldwide.

Third, management could consider **product development**—offering modified or new products to current markets. For example, Starbucks has introduced reduced-calorie options, such as Frappuccino Light Blended Beverages. This was introduced to Korea and China in 2006 and 2007 respectively. It has even developed a new flavor, Green Tea Frappuccino, for the Asian market. In 2010, the Doubleshot Espresso was introduced in Hong Kong. To capture consumers who brew their coffee at home, Starbucks has also penetrated America's supermarket aisles. It has a co-branding deal with Kraft, under which Starbucks roasts and packages its coffee and Kraft markets and distributes it. During the financial crisis, Starbucks introduced Via, a more affordable ready-brew coffee beverage. And the company is forging ahead into new consumer categories. For example, it has brought out a line of Starbucks coffee liqueurs.

Fourth, Starbucks might consider **diversification**—starting up or buying businesses outside of its current products and markets. For example, Starbucks purchased Hear Music, which was so successful that it spurred the creation of the new Starbucks entertainment division. Beginning with just selling and playing compilation CDs, Hear Music now has its own XM Satellite Radio station. It has also installed kiosks (called Media Bars) in select Starbucks stores, which let customers download music and burn their own CDs while sipping their lattes. There are also Hear Music retail outlets which are music stores first and coffee shops second.

In a more extreme diversification, Starbucks has partnered with Lion's Gate to coproduce movies and then market them in Starbucks coffee houses. Starbucks supported the partnership's first film, *Akeelah and the Bee*, by sprinkling flashcards around the stores, stamping the movie's logo on its coffee cups, and placing spelling-bee caliber words on the store chalkboards. This new venture has left some analysts asking whether Starbucks is diversifying too broadly, at the risk of losing its market focus. They are asking, "What do movies have to do with Starbucks coffee and the Starbucks experience?"[7]

› Starbucks expands through product development by introducing to current markets modified or new flavors like the Kyoto Matcha Latte in Japan.

Market penetration
A strategy for company growth by increasing sales of current products to current market segments without changing the product.

Market development
A strategy for company growth by identifying and developing new market segments for current company products.

Product development
A strategy for company growth by offering modified or new products to current market segments.

Diversification
A strategy for company growth through starting up or acquiring businesses outside the company's current products and markets.

Downsizing
Reducing the business portfolio by eliminating the products or business units that are not profitable or that no longer fit in the company's overall strategy.

Companies must not only develop strategies for *growing* their business portfolios but also strategies for **downsizing** them. The market environment might change, making some of the company's products or markets less profitable. The firm may have grown too fast or entered areas where it lacks experience. This can occur when a firm enters too many foreign markets without proper research or when a company introduces new products that do not offer superior customer value. Finally, some products or business units simply age and die. When a firm finds brands or businesses that are unprofitable or that no longer fit its overall strategy, it must carefully prune, harvest, or divest them. Weak businesses usually require a disproportionate amount of management attention. Managers should focus on promising growth opportunities, not spend energy trying to salvage fading ones.

Planning Marketing: Partnering to Build Customer Relationships

After the company's strategic plan is established, more detailed planning for each business unit takes place. The major functional departments in each unit—marketing, finance, accounting, purchasing, operations, information systems, human resources, and others—must work together to accomplish strategic objectives.

Marketing plays a key role in the company's strategic planning in several ways. First, marketing provides a guiding *philosophy*—the marketing concept—that suggests that company strategy should revolve around building profitable relationships with important consumer groups. Second, marketing provides *inputs* to strategic planners by helping to identify attractive market opportunities and by assessing the firm's potential to take advantage of them. Finally, within individual business units, marketing designs *strategies* for reaching the unit's objectives. Once the unit's objectives are set, marketing's task is to help carry them out profitably.

Customer value and satisfaction are important ingredients in the marketer's formula for success. However, as noted in Chapter 2, marketers alone cannot produce superior value for customers. Although it plays a leading role, marketing can be only a partner in attracting, keeping, and growing customers. In addition to *customer relationship management*, marketers must also practice *partner relationship management*. They must work closely with partners in other company departments to form an effective *value chain* that serves the customer. Moreover, they must partner effectively with other companies in the marketing system to form a competitively superior *value delivery network*. We now take a closer look at the concepts of a company value chain and value delivery network.

Partnering with Other Company Departments

Value chain
The series of departments that carry out value-creating activities to design, produce, market, deliver, and support a firm's products.

Each company department can be thought of as a link in the company's **value chain**.[8] That is, each department carries out value-creating activities to design, produce, market, deliver, and support the firm's products. The firm's success depends not only on how well each department performs its work but also on how well the activities of various departments are coordinated.

For example, Wal-Mart's goal is to create customer value and satisfaction by providing shoppers with the products they want at the lowest possible prices. Marketers at Wal-Mart play an important role. They learn what customers need and stock the stores' shelves with the desired products at unbeatable low prices. They prepare advertising and merchandising programs and assist shoppers with customer service. Through these and other activities, Wal-Mart's marketers help deliver value to customers.

However, the marketing department needs help from the company's other departments. Wal-Mart's ability to offer the right products at low prices depends on the purchasing department's skill in developing the needed suppliers and buying from them at low cost. Wal-Mart's information technology department must provide fast and accurate information about which products are selling in each store. And its operations people must provide effective, low-cost merchandise handling.

❯ **The value chain** – Wal-Mart's ability to offer the right products at low prices depends on the contributions of people in all of the company's departments—marketing, purchasing, information systems, and operations.

A company's value chain is only as strong as its weakest link. Success depends on how well each department performs its work of adding customer value and on how well the activities of various departments are coordinated. At Wal-Mart, if purchasing can't wring the lowest prices from suppliers, or if operations can't distribute merchandise at the lowest costs, then marketing can't deliver on its promise of lowest prices. Marketing managers need to work closely with managers of other functions to develop a system of functional plans under which the different departments can work together to accomplish the company's overall strategic objectives.

Partnering with Others in the Marketing System

In its quest to create customer value, the firm needs to look beyond its own value chain and into the value chains of its suppliers, distributors, and, ultimately, customers. Consider McDonald's. Its 36,000 restaurants across 100 countries serve more than 69 million customers daily. People do not swarm to McDonald's only because they love the chain's hamburgers. In fact, consumers typically rank McDonald's behind Burger King and Wendy's in taste. Consumers flock to the McDonald's *system*, not just to its food products. Throughout the world,

❯ Consumers go to McDonald's not because of its food but because it offers QSCV—quality, service, cleanliness, and value.

Value delivery network
The network made up of the company, suppliers, distributors, and ultimately customers who "partner" with each other to improve the performance of the entire system.

McDonald's finely-tuned system delivers a high standard of what the company calls QSCV—quality, service, cleanliness, and value. McDonald's is effective only to the extent that it successfully partners with its franchisees, suppliers, and others to jointly deliver exceptionally high customer value.

More companies today are partnering with the other members of the supply chain to improve the performance of the customer **value delivery network**. For example, cosmetics maker L'Oréal knows the importance of building close relationships with its suppliers, who supply everything from polymers and fats to spray cans and packaging to production equipment and office supplies:

❯ L'Oréal understands the importance of supplier network by building long-term relationships with its suppliers.

L'Oréal is the world's largest cosmetics manufacturer with 25 brands ranging from Maybelline and Kiehl's to Lancôme and Redken. The company's supplier network is crucial to its success. As a result, L'Oréal treats suppliers as respected partners. On the one hand, it expects a lot from suppliers in terms of design innovation, quality, and socially responsible actions. The company carefully screens new suppliers and regularly assesses the performance of current suppliers. On the other hand, L'Oréal works closely with suppliers to help them meet its exacting standards. Whereas some companies make unreasonable demands of their suppliers and "squeeze" them for short-term gains, L'Oréal builds long-term supplier relationships based on mutual benefit and growth. According to the company's supplier Web site, it treats suppliers with "fundamental respect for their business, their culture, their growth, and the individuals who work there. Each relationship is based on … shared efforts aimed at promoting growth and mutual profits that make it possible for suppliers to invest, innovate, and compete." As a result, more than 75 percent of L'Oréal's supplier partners have been working with the company for 10 years or more and the majority of them for several decades. Says the company's head of purchasing, "The CEO wants to make L'Oréal a top performer and one of the world's most respected companies. Being respected also means being respected by our suppliers."[9]

Increasingly, competition no longer takes place between individual competitors. Rather, it takes place between the entire value delivery networks created by these competitors.

Marketing Strategy and the Marketing Mix

The strategic plan defines the company's overall mission and objectives. Marketing's role and activities are shown in **Figure 2.5**, which summarizes the major activities involved in managing a customer-driven marketing strategy and the marketing mix.

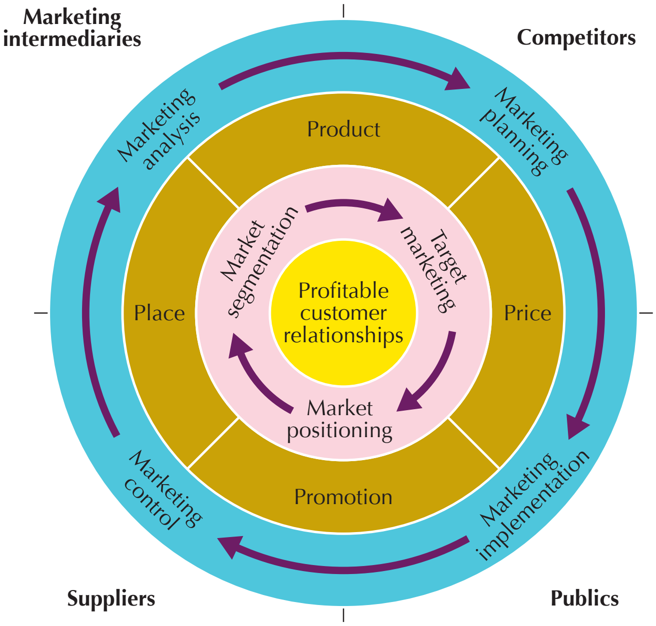

FIGURE 2.5
Managing marketing strategy and the marketing mix

Consumers stand in the center. The goal is to create value for customers and build strong and profitable customer relationships. Next comes **marketing strategy** —the marketing logic by which the company hopes to create this customer value and achieve these profitable relationships. The company decides on which customers it will serve (segmentation and targeting) and how it will serve them (differentiation and positioning). It identifies the total market, then divides it into smaller segments, selects the most promising segments, and focuses on serving and satisfying customers in these segments.

Marketing strategy
The marketing logic by which the business unit hopes to achieve its marketing objectives.

Guided by marketing strategy, the company designs an integrated marketing mix made up of factors under its control—product, price, place, and promotion (the four Ps). To find the best marketing strategy and mix, the company engages in marketing analysis, planning, implementation, and control. Through these activities, the company watches and adapts to the actors and forces in the marketing environment. We will now look briefly at each activity.

Customer-Driven Marketing Strategy

As emphasized throughout Chapter 2, companies need to be customer centered. They must win customers from competitors, then keep and grow them by delivering greater value. But before it can satisfy consumers, a company must first understand their needs and wants. Thus, sound marketing requires careful customer analysis.

Companies cannot profitably serve all consumers in a given market—at least not all consumers in the same way. There are too many different kinds of consumers with too many different kinds of needs. Thus, each company must divide up the total market, choose the best segments, and design strategies for profitably serving chosen segments. This process involves *market segmentation*, *target marketing*, *differentiation*, and *market positioning*.

Market Segmentation

The market consists of many types of customers, products, and needs. The marketer has to determine which segments offer the best opportunities. Consumers

Market segmentation
Dividing a market into smaller groups with distinct needs, characteristics, or behaviors who might require separate products or marketing mixes.

Market segment
A group of consumers who respond in a similar way to a given set of marketing efforts.

Market targeting
The process of evaluating each market segment's attractiveness and selecting one or more segments to enter.

can be grouped and served in various ways based on geographic, demographic, psychographic, and behavioral factors. The process of dividing a market into distinct groups of buyers who have different needs, characteristics, or behaviors, who might require separate products or marketing programs is called **market segmentation**.

Every market has segments, but not all ways of segmenting a market are equally useful. For example, Panadol would gain little by distinguishing between low- and high-income pain reliever users if both respond in the same way to marketing efforts. A **market segment** consists of consumers who respond in a similar way to a given set of marketing efforts. In the car market, for example, consumers who want the biggest, most comfortable car regardless of price make up one market segment. Consumers who care mainly about price and operating economy make up another segment. It would be difficult to make one car model that is the first choice of consumers in both segments.

Market Targeting

After a company has defined the market segments, it can enter one or many of these segments. **Market targeting** involves evaluating each market segment's attractiveness and selecting one or more segments to enter. A company should target segments in which it can profitably generate the greatest customer value and sustain it over time.

A company with limited resources might decide to serve only one or a few special segments or "market niches." Such "nichers" specialize in serving customer segments that major competitors overlook or ignore. For example, Ferrari sells only 1,500 of its very high-performance cars in the United States each year, but at very high prices—from an eye-opening $287,020 for its Ferrari Superamerica model to an absolutely astonishing $2 million for its FXX super sports car, which can be driven only on race tracks. Most nichers aren't quite so exotic. Logitech, another "nicher," is only a fraction of the size of giant Microsoft, but through skillful niching, it dominates the PC mouse market, with Microsoft as the runner-up.

❯ Yakult offers different flavors to appeal to different segments with varied tastes.

Alternatively, a company might choose to serve several related segments—perhaps those with different kinds of customers but with the same basic wants. Yakult, the Japanese health drink, targets kids, teens, and adults with the same healthy lifestyle-themed products—regular Yakult and Yakult Light. Or, a large company might decide to offer a complete range of products to serve all market segments. Most companies enter a new market by serving a single segment, and if this proves successful, they add segments. Large companies eventually seek full market coverage to suit every "person, purse, and personality." The leading company normally has different products designed to meet the special needs of each segment.

Market Differentiation and Positioning

After a company has decided which market segments to enter, it must decide how it will differentiate its market offering for each targeted segment and what positions it wants to occupy in those segments. A product's *position* is the place the product occupies, relative to competitors, in consumers' minds. Marketers want to develop unique market positions for their products. If a product is perceived to be exactly like others in the market, consumers would have no reason to buy it.

Positioning is arranging for a product to occupy a clear, distinctive, and desirable place, relative to competing products, in the minds of target consumers. As one positioning expert puts it, positioning is "how you differentiate your product or company—why a shopper will pay a little more for your brand."[10] Thus, marketers plan positions that distinguish their products from competing brands and give them the greatest advantage in their target markets.

BMW makes "the ultimate driving machine," and Kia promises "the power to surprise." Such deceptively simple statements form the backbone of a product's marketing strategy.

Kia differentiates itself by promising to surprise consumers through its offerings.

In positioning its product, the company first identifies possible customer value differences that provide competitive advantages upon which to build the position. The company can offer greater customer value either by charging lower prices than competitors do or by offering more benefits to justify higher prices. But if the company *promises* greater value, it must then *deliver* that greater value. Thus, effective positioning begins with **differentiation**—differentiating the company's market offering so that it gives consumers more value. Once the company has chosen a desired position, it must deliver and communicate that position to target consumers. The company's entire marketing program should support the chosen positioning strategy.

Positioning
Arranging for a product to occupy a clear, distinctive, and desirable place relative to competing products in the minds of target consumers.

Differentiation
Actually differentiating the market offering to create superior customer value.

Marketing mix
The set of controllable tactical marketing tools—product, price, place, and promotion—that the firm blends to produce the response it wants in the target market.

Developing an Integrated Marketing Mix

After deciding on its overall marketing strategy, the company is ready to begin planning the details of the marketing mix, one of the major concepts in modern marketing. The **marketing mix** is the set of controllable, tactical marketing tools that the firm blends to produce the response it wants in the target market. It is also known as the "four *Ps*": *product*, *price*, *place*, and *promotion*. **Figure 2.6** shows the marketing tools under each *P*.

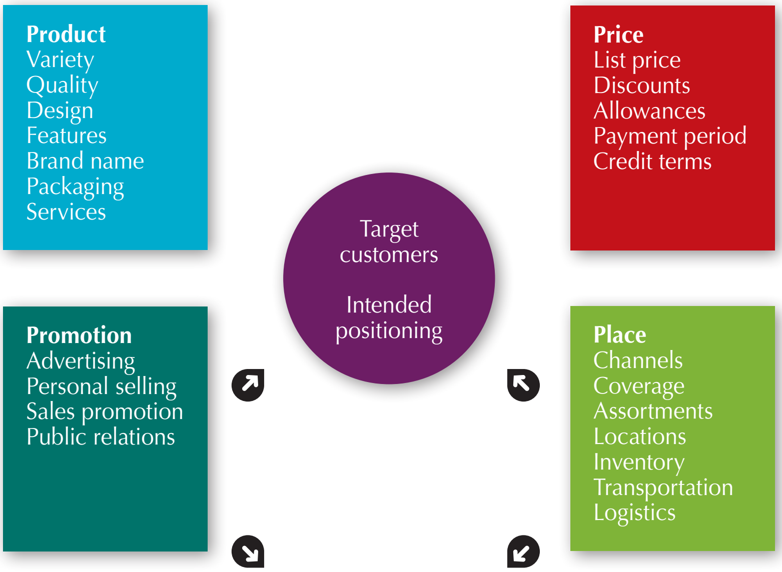

FIGURE 2.6
The four Ps of the marketing mix

Product means the goods-and-services combination the company offers to the target market. Thus, a Hyundai Sonata consists of nuts and bolts, spark plugs, pistons, headlights, and thousands of other parts. Hyundai offers several Sonata models and dozens of optional features, and a warranty.

Price is the amount of money customers have to pay to obtain the product. Hyundai calculates suggested retail prices that its dealers might charge for each Sonata. Hyundai dealers negotiate the price with each customer, offering discounts, trade-in allowances, and credit terms.

Place includes company activities that make the product available to target consumers. Hyundai partners with dealerships that sell the company's many different models. The dealers keep an inventory of Hyundai automobiles, demonstrate them to potential buyers, negotiate prices, close sales, and service the cars after the sale.

Promotion means activities that communicate the merits of the product and persuade target customers to buy it. Suppose Hyundai Motor Company spends $2 billion each year on advertising to tell consumers about the company and its many products. Dealership salespeople assist potential buyers and persuade them that Hyundai is the best car for them.

An effective marketing program blends all the marketing mix elements into an integrated marketing program designed to achieve the company's marketing objectives by delivering value to consumers. The marketing mix constitutes the company's tactical tool kit for establishing strong positioning in target markets.

One concern of the four Ps concept is that it takes the seller's view of the market, not the buyer's view. From the buyer's viewpoint, the four Ps might be better described as the four Cs:[11]

4Ps	4Cs
Product	Customer solution
Price	Customer cost
Place	Convenience
Promotion	Communication

Thus, while marketers see themselves as selling products, customers see themselves as buying value or solutions to their problems. And customers are interested in more than just the price; they are interested in the total costs of obtaining, using, and disposing of a product. Customers want the product and service to be as conveniently available as possible. Finally, they want two-way communication. Marketers would do well to think through the four Cs first and then build the four Ps on that platform.

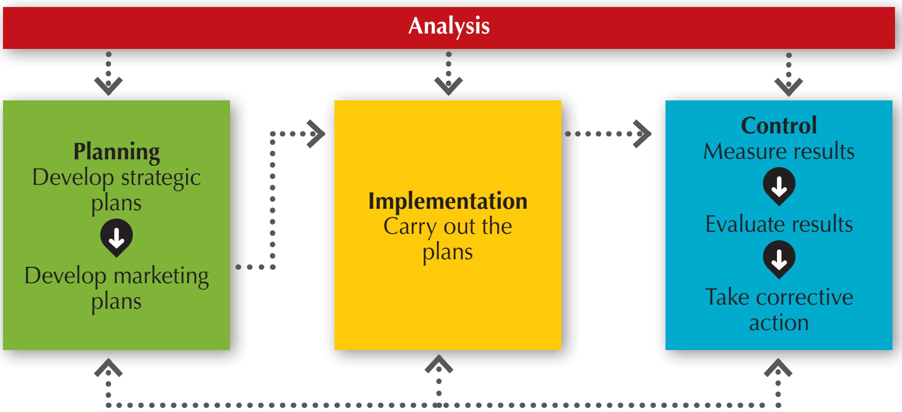

FIGURE 2.7
Marketing analysis, planning, implementation, and control

Managing the Marketing Effort

In addition to being good at the *marketing* in marketing management, companies also need to pay attention to the *management*. Managing the marketing process requires the four marketing management functions shown in **Figure 2.7**— *analysis*, *planning*, *implementation*, and *control*.

Marketing Analysis

Managing the marketing function begins with a complete analysis of the company's situation. The marketer should conduct a **SWOT analysis**, by which it evaluates the company's overall strengths (S), weaknesses (W), opportunities (O), and threats (T) (see **Figure 2.8**). Strengths include internal capabilities, resources, and positive situational factors that may help the company to serve its customers and achieve its objectives. Weaknesses include internal limitations and negative situational factors that may interfere with the company's performance. Opportunities are favorable factors or trends in the external environment that the company may be able to exploit to its advantage. And threats are unfavorable external factors or trends that may present challenges to performance.

SWOT analysis
An overall evaluation of the company's strengths (S), weaknesses (W), opportunities (O), and threats (T).

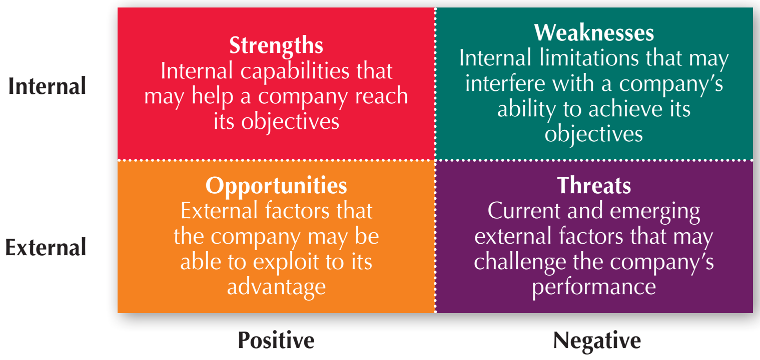

FIGURE 2.8
SWOT analysis

The company must analyze its markets and marketing environment to find attractive opportunities and identify environmental threats. It must analyze company strengths and weaknesses as well as current and possible marketing actions to determine which opportunities it can best pursue. The goal is to match the company's strengths to attractive opportunities in the environment, while eliminating or overcoming weaknesses and minimizing threats. Marketing analysis provides inputs to each of the other marketing management functions. We discuss marketing analysis more fully in Chapter 3.

Marketing Planning

Through strategic planning, the company decides what it wants to do with each business unit. Marketing planning involves deciding on marketing strategies that will help the company attain its overall strategic objectives. A detailed marketing plan is needed for each business, product, or brand. What does a marketing plan look like? Our discussion focuses on product or brand marketing plans.

Table 2.2 outlines the major sections of a typical product or brand marketing plan. (See Appendix 1 for a sample marketing plan.) The plan begins with an executive summary, which quickly overviews major assessments, goals, and

TABLE 2.2 Contents of a Marketing Plan

Section	Purpose
Executive summary	Presents a brief summary of the main goals and recommendations of the plan for management review, helping top management find the plan's major points quickly. A table of contents should follow the executive summary.
Current marketing situation	Describes the target market and company's position in it, including information about the market, product performance, competition, and distribution. This section includes: ■ A *market description* that defines the market and major segments, then reviews customer needs and factors in the marketing environment that may affect customer purchasing. ■ A *product review* that shows sales, prices, and gross margins of the major products in the product line. ■ A review of *competition* that identifies major competitors and assesses their market positions and strategies for product quality, pricing, distribution, and promotion. ■ A review of *distribution* that evaluates recent sales trends and other developments in major distribution channels.
Threats and opportunities analysis	Assesses major threats and opportunities that the product might face, helping management to anticipate important positive or negative developments that might have an impact on the firm and its strategies.
Objectives and issues	States the marketing objectives that the company would like to attain during the plan's term and discusses key issues that will affect their attainment. For example, if the goal is to achieve a 15 percent market share, this section looks at how this goal might be achieved.
Marketing strategy	Outlines the broad marketing logic by which the business unit hopes to achieve its marketing objectives and the specifics of target markets, positioning, and marketing expenditure levels. How will the company create value for customers in order to capture value from customers in return? This section also outlines specific strategies for each marketing mix element and explains how each responds to the threats, opportunities, and critical issues spelled out earlier in the plan.
Action programs	Spells out how marketing strategies will be turned into specific action programs that answer the following questions: *What* will be done? *When* will it be done? *Who* will do it? *How* much will it cost?
Budgets	Details a supporting marketing budget that is essentially a projected profit-and-loss statement. It shows expected revenues (forecasted number of units sold and the average net price) and expected costs (of production, distribution, and marketing). The difference is the projected profit. Once approved by higher management, the budget becomes the basis for materials buying, production scheduling, personnel planning, and marketing operations.
Controls	Outlines the controls that will be used to monitor progress and allows higher management to review implementation results and spot products that are not meeting their goals. It includes measures of return on marketing investment.

recommendations. The main section of the plan presents a detailed SWOT analysis of the current marketing situation as well as potential threats and opportunities. The plan next states major objectives for the brand and outlines the specifics of a marketing strategy for achieving them.

A *marketing strategy* consists of specific strategies for target markets, positioning, the marketing mix, and marketing expenditure levels. It outlines how the company intends to create value for target customers to capture value in return. In this section, the planner explains how each strategy responds to the threats, opportunities, and critical issues spelled out earlier in the plan. Additional sections of the marketing plan lay out an action program for implementing the marketing strategy along with the details of a supporting *marketing budget*. The last section outlines the controls that will be used to monitor progress, measure return on marketing investment, and take corrective action.

Marketing Implementation

A brilliant marketing strategy counts for little if the company fails to implement it properly. **Marketing implementation** is the process that turns marketing *plans* into marketing *actions* to accomplish strategic marketing objectives. Whereas marketing planning addresses the *what* and *why* of marketing activities, implementation addresses the *who*, *where*, *when*, and *how*.

Marketing implementation
The process that turns marketing strategies and plans into marketing actions to accomplish strategic marketing objectives.

Many managers think that "doing things right" (implementation) is as important as, or even more important than, "doing the right things" (strategy). Both are critical to success, and companies can gain competitive advantages through effective implementation. One firm can have essentially the same strategy as another, yet win in the marketplace through faster or better execution. Still, implementation is difficult—it is often easier to think up good marketing strategies than it is to carry them out.

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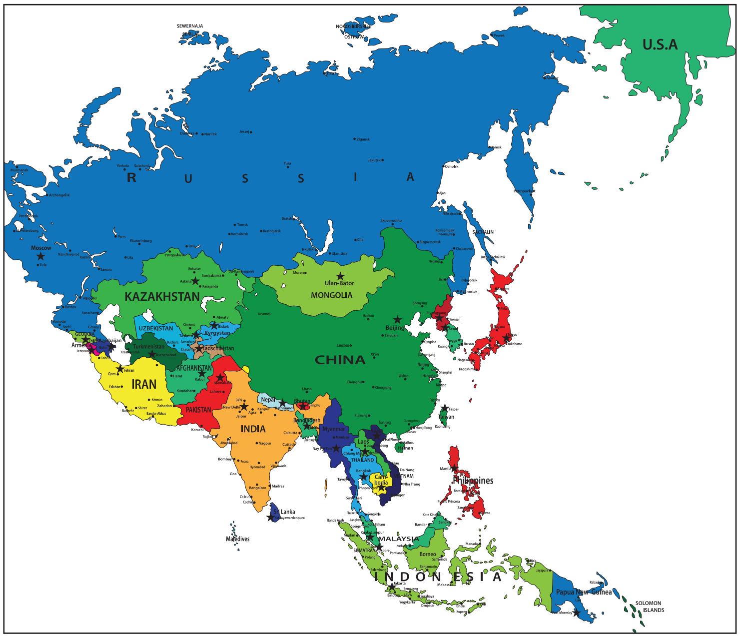
❯ Marketers must continually plan their analysis, implementation, and control activities.

Successful marketing implementation depends on how well the company blends its people, organizational structure, decision and reward systems, and company culture into a cohesive action program that supports its strategies. At all levels, the company must be staffed by people who have the needed skills, motivation, and personal characteristics. The company's formal organizational structure plays an important role in implementing marketing strategy; so do its decision and reward systems. For example, if a company's compensation system rewards managers for short-run profit results, they will have little incentive to work toward long-run market-building objectives.

Finally, to be successfully implemented, the firm's marketing strategies must fit with its company culture, the system of values and beliefs shared by people in the organization. Research in Asia found that Chinese and Indian companies seemed to be positioned well to be globally competitive given their entrepreneurial corporate



❯ Marketing strategies must fit company culture. Japan has a consensus culture while China and India are more competitive given their entrepreneurial culture.

cultures. In contrast, the consensus culture of Japanese businesses might hinder their future growth. Reflecting their unique history of melding Asian and European values, Hong Kong firms did not have a clear profile of corporate culture.[12]

Marketing Department Organization

The company must have a marketing organization that can carry out marketing strategies and plans. If the company is very small, one person may do all of the research, selling, advertising, customer service, and other marketing work. As the company expands, a marketing department emerges to plan and carry out marketing activities. In large companies, this department contains many specialists. Thus, companies like Procter & Gamble (P&G) and Unilever have product and market managers, sales managers and salespeople, market researchers, advertising experts, and many other specialists. To head such large marketing organizations, many companies have created a *Chief Marketing Officer* (or CMO) position. Marketing organization has become an increasingly important issue in recent years. Given the shift in focus from products, brands, and territories to customers, companies are moving from brand management to *customer management*. Managers think of managing portfolios of customers instead of portfolios of brands.

› Organizing the marketing department can be arranged in several ways—functional, geographic, product management, or customer management organization.

Modern marketing departments can be arranged in several ways. The most common form of marketing organization is *functional organization.* Under this form of organization, different marketing activities are headed by a functional specialist—a sales manager, advertising manager, marketing research manager, customer service manager, or a new-product manager. A company that sells across the country or internationally often uses *geographic organization.* Its sales and marketing people are assigned to specific countries, regions, and districts. Geographic organization allows salespeople to settle into a territory, get to know their customers, and work with minimal travel time and cost.

Companies with very different products or brands often have a *product management organization*. Using this approach, a product manager develops and implements a complete strategy and marketing program for a specific product or brand. Many firms, especially consumer products companies, have set up product management organizations.

For companies that sell one product line to many different types of markets and customers with different needs and preferences, *market* or *customer management organization* might be best. A market management organization is similar to a product management organization. Marketing managers are responsible for developing marketing strategies and plans for their specific markets or customers. This system's main advantage is that the company is organized around the needs of specific customer segments.

Large companies that produce different products flowing into different geographic and customer markets usually employ some *combination* of the functional, geographic, product, and market organization forms. This ensures that each function, product, and market receives its share of management attention. However, it can also add costly layers of management and reduce organizational flexibility. Still, the benefits of organizational specialization usually outweigh the drawbacks.

Marketing organization has become an increasingly important issue. Today's marketing environment calls for less focus on products, brands, and territories and more focus on customer relationships. More and more, companies are shifting their brand management focus toward *customer management*—moving away from managing just product or brand profitability and towards managing profitability and customer equity. They think of themselves not as managing a portfolio of brands, but as managing portfolios of customers.

Marketing Control

Because many surprises occur during the implementation of marketing plans, the marketing department must practice constant marketing control. **Marketing control** involves evaluating the results of marketing strategies and plans and taking corrective action to ensure that objectives are attained. There are four steps involved. Management first sets specific marketing goals. It then measures its performance in the marketplace and evaluates the causes of any differences between expected and actual performance. Finally, management takes corrective action to close the gap between its goals and its performance. This may require changing the action programs or even changing the goals.

Marketing control
The process of measuring and evaluating the results of marketing strategies and plans and taking corrective action to ensure that objectives are achieved.

Operating control involves checking ongoing performance against the annual plan and taking corrective action when necessary. Its purpose is to ensure that the company achieves the sales, profits, and other goals set out in its annual plan. It also involves determining the profitability of different products, territories, markets, and channels.

Strategic control involves looking at whether the company's basic strategies are well matched to its opportunities. Marketing strategies and programs can quickly become outdated, and each company should periodically reassess its overall approach to the marketplace. A major tool for such strategic control is a **marketing audit**. The marketing audit is a comprehensive, systematic, independent, and periodic examination of a company's environment, objectives, strategies, and activities to determine problem areas and opportunities. The audit provides good input for a plan of action to improve the company's marketing performance.[13]

Marketing audit
A comprehensive, systematic, independent, and periodic examination of a company's environment, objectives, strategies, and activities to determine problem areas and opportunities and to recommend a plan of action to improve the company's marketing performance.

The marketing audit covers *all* major marketing areas of a business, not just a few trouble spots. It assesses the marketing environment, marketing strategy, marketing organization, marketing systems, marketing mix, and marketing productivity and profitability. The audit is normally conducted by an objective and experienced outside party. Based on the findings, management then decides which actions make sense and how and when to implement them.

Measuring and Managing Return on Marketing Investment

Marketing managers must ensure that their market-ing dollars are well spent. Hence, better measures of *return on marketing investment* have been developed. **Return on marketing investment** (or **marketing ROI**) is the net return from a marketing investment divided by the costs of the marketing investment. It measures the profits generated by investments in marketing activities.

Return on marketing investment (or marketing ROI)
The net return from a marketing investment divided by the costs of the marketing investment.

Marketing returns can be difficult to measure. In measuring financial ROI, both the *R* and the *I* are uniformly measured in dollars. But there is, as of now, no consistent definition of marketing ROI. Instead, a company can assess return on marketing in terms of standard marketing performance measures, such as brand awareness, sales, or market share. Campbell Soup uses sales and market share data to evaluate specific advertising campaigns. For example, analysis revealed that its Soup at Hand advertising campaign, which depicted real-life scenarios of consumers using the portable soup, nearly doubled both the product's trial rate and repeat use rate after the first year.[14] Indeed, following the recent global financial crisis, analysts are seeing marketers becoming more aware of the returns from their marketing investments. In line with the digital age, companies such as Pepsi are increasing their digital advertising budget while cutting down on TV commercials as digital advertising promises to yield a higher investment return.[15]

Many companies are assembling such measures into *marketing dashboards*—meaningful sets of marketing performance measures in a single display used to monitor strategic marketing performance. Just as automobile dashboards present drivers with details on how their cars are performing, the marketing dashboard gives marketers the detailed measures they need to assess and adjust their marketing strategies.[16]

Increasingly, however, marketers are using customer-centered measures of the marketing impact, such as customer acquisition, customer retention, and customer lifetime value. **Figure 2.9** views marketing expenditures as investments that produce returns in the form of more profitable customer relationships.[17] Marketing investments result in improved customer value and satisfaction, which in turn increase customer attraction and retention. These increase individual customer lifetime values and the firm's overall customer equity. Increased customer equity, in relation to the cost of the marketing investments, determines the return on marketing investment.

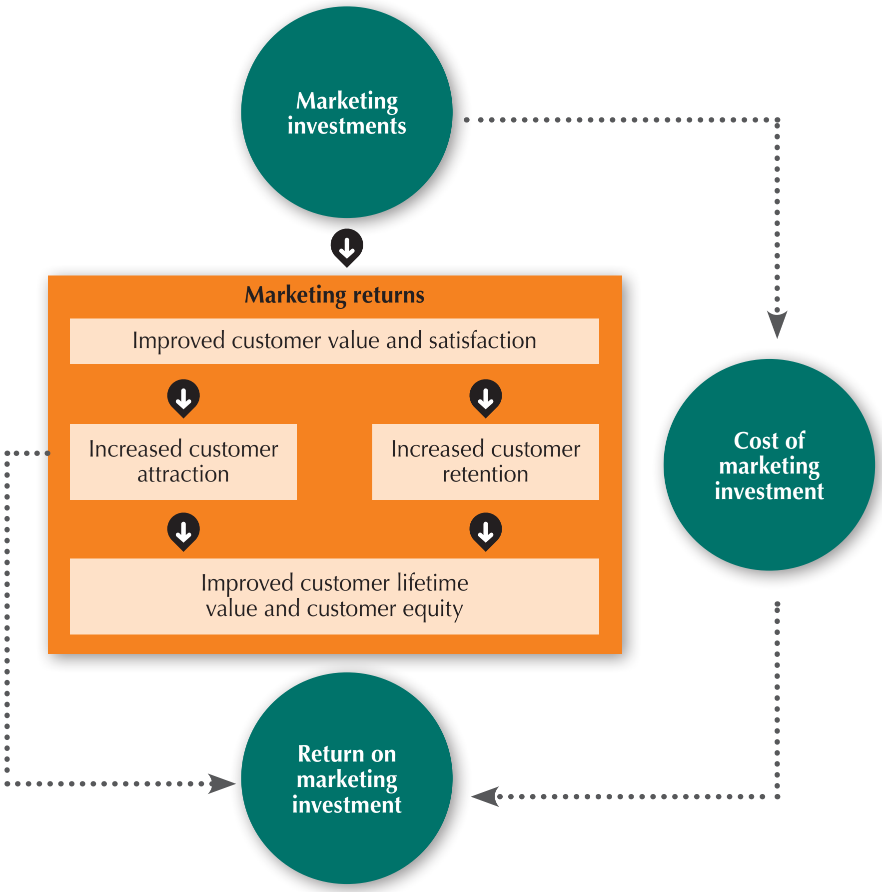


FIGURE 2.9
Return on marketing

Source: Adapted from Roland T. Rust, Katherine N. Lemon, and Valerie A. Zeithamal, "Return on Marketing: Using Consumer Equity to Focus Marketing Strategy", *Journal of Marketing*, January 2004, p. 112.

Regardless of how it's defined or measured, the return on marketing investment concept is here to stay. "Marketing ROI is at the heart of every business," says an AT&T marketing executive. "[We've added another P to the marketing mix]—for *profit and loss* or *performance*. We absolutely have to … quantify the impact of marketing on the business. You can't improve what you can't measure."[18]

Reviewing Objectives and Key Terms

In Chapter 2, we defined *marketing* and outlined the steps in the marketing process. In this chapter, we examined company-wide strategic planning and marketing's role in the organization. Then, we looked into marketing strategy and the marketing mix, and reviewed the major marketing management functions. In future chapters, we'll expand on these fundamentals.

OBJECTIVE 1 Explain company-wide strategic planning and its four steps. (pp.41–45)

Strategic planning sets the stage for the rest of the company's planning. Marketing contributes to strategic planning, and the overall plan defines marketing's role in the company. Although formal planning offers a variety of benefits to companies, not all companies use it or use it well.

Strategic planning involves developing a strategy for long-run survival and growth. It consists of four steps: defining the company's mission, setting objectives and goals, designing a business portfolio, and developing functional plans. *Defining a clear company mission* begins with drafting a formal mission statement, which should be market oriented, realistic, specific, motivating, and consistent with the market environment. The mission is then transformed into detailed *supporting goals and objectives* to guide the entire company. Based on these goals and objectives, the headquarters designs a *business portfolio*, deciding which businesses and products should receive more or fewer resources. In turn, each business and product unit must develop *detailed marketing plans* in line with the company-wide plan.

OBJECTIVE 2 Discuss how to design business portfolios and develop growth strategies. (pp.46–52)

Guided by the company's mission statement and objectives, management plans its *business portfolio*, or the collection of businesses and products that make up the company. The firm wants to produce a business portfolio that best fits its strengths and weaknesses to opportunities in the environment. To do this, it must analyze and adjust its *current* business portfolio and develop growth and downsizing strategies for adjusting the *future* portfolio. The company might use a formal portfolio-planning method. But many companies are now designing more customized portfolio-planning approaches that better suit their unique situations. The *product/market expansion grid* suggests four possible growth paths: market penetration, market development, product development, and diversification.

OBJECTIVE 3 Explain marketing's role in strategic planning and explain how marketing works with its partners to create and deliver customer value. (pp. 52–54)

Under the strategic plan, the major functional departments—marketing, finance, accounting, purchasing, operations, information systems, human resources, and others—must work together to accomplish strategic objectives. Marketing plays a key role in the company's strategic planning by providing a *marketing-concept philosophy* and *inputs* regarding attractive market opportunities. Within individual business units, marketing designs *strategies* for reaching the unit's objectives and helps to carry them out profitably.

Marketers alone cannot produce superior value for customers. A company's success depends on how well each department performs its customer value-adding activities and how well the departments work together to serve the customer. Thus, marketers must practice *partner relationship management*. They must work closely with partners in other company departments to form an effective *value chain* that serves the customer. And they must partner effectively with other companies in the marketing system to form a competitively superior *value delivery network*.

OBJECTIVE 4 Describe the elements of a customer-driven marketing strategy and mix, and the forces that influence it. (pp. 54–58)

Consumer value and relationships are at the center of marketing strategy and programs. Through market segmentation, market targeting, differentiation, and market positioning, the company divides the total market into smaller segments, selects the segments it can best serve, and decides how it wants to bring value to target consumers. It then designs an *integrated marketing mix* to produce the response it wants in the target market. The marketing mix consists of product, price, place, and promotion decisions.

OBJECTIVE 5 List the marketing management functions, including the elements of a marketing plan, and discuss the importance of measuring and managing return on marketing investment. (pp. 59–64)

To find the best strategy and mix and to put them into action, the company engages in marketing analysis, planning, implementation, and control. The main components of a *marketing plan* are the executive summary, current marketing situation, threats and opportunities, objectives and issues, marketing strategies, action programs, budgets, and controls. To plan good strategies is often easier than to carry them out. To be successful, companies must also be effective at *implementation*—turning marketing strategies into marketing actions.

Much of the responsibility for implementation goes to the company's marketing department. Marketing departments can be organized in one or a combination of ways: *functional marketing organization*, *geographic organization*, *product management organization*, or *market management organization*. In this age of customer relationships, more and more companies are now changing their organizational focus from product or territory management to customer relationship management. Marketing organizations carry out *marketing control*, which includes both operating control and strategic control. They use *marketing audits* to determine marketing opportunities and problems and to recommend short-run and long-run actions to improve overall marketing performance.

Marketing managers must ensure that their marketing dollars are well spent. Today's marketers face growing pressures to show that they are adding value in line with their costs. In response, marketers are developing better measures of *return on marketing investment*. Increasingly, they are using customer-centered measures of the marketing impact as a key input into their strategic decision making.

Key Terms

OBJECTIVE 1
Strategic planning (p 41)
Mission statement (p 42)

OBJECTIVE 2
Business portfolio (p 46)
Portfolio analysis (p 46)
Growth–share matrix (p 47)
Product/market expansion grid (p 48)
Market penetration (p 49)
Market development (p 49)
Product development (p 49)
Diversification (p 49)
Downsizing (p 50)

OBJECTIVE 3
Value chain (p 50)
Value delivery network (p 52)

OBJECTIVE 4
Marketing strategy (p 53)
Market segmentation (p 54)
Market segment (p 54)
Market targeting (p 54)
Positioning (p 55)
Differentiation (p 55)
Marketing mix (p 55)

OBJECTIVE 5
SWOT analysis (p 57)
Marketing implementation (p 59)
Marketing control (p 61)
Marketing audit (p 61)
Return on marketing investment (or Marketing ROI) (p 61)

Discussing the Concepts

1. Define strategic planning and briefly describe the four steps in the strategic planning process. Discuss the role marketing plays in this process.
2. Describe the Boston Consulting Group's approach to portfolio analysis. Briefly discuss why management may find it difficult to dispose of a "question mark."
3. Name and describe the four product/market expansion grid strategies. Apple introduced the iPad in 2010 to its line-up of the iPod, iPhone, and iMac. Which growth strategy does this represent?
4. Discuss the differences between market segmentation, targeting, differentiation, and positioning. Which two questions do they address?
5. Define each of the four Ps. Does the four Ps framework do an adequate job of describing marketer responsibilities in preparing and managing marketing programs? Why? Do you see any issues with this framework in relation to service products?
6. What is return on marketing investment? Why is it difficult to measure?

Applying the Concepts

1. Explain what a SWOT analysis involves. Develop a SWOT analysis for a travel agency in your community.
2. In a small group, discuss whether the following statement from Nike meets the criteria of a good mission statement: "To bring inspiration and innovation to every athlete* in the world. (*If you have a body, you are an athlete.)"
3. Using the product/market expansion grid, discuss the strategies that UNIQLO, the Japanese casual fashion chain, employed to grow its business.

Focus on Technology

In 2011, Hewlett-Packard (HP) CEO, Leo Apothekar, made the strategic decision to exit the personal computer business, but he got fired and incoming CEO Meg Wittman reversed that decision. However, sales of personal computers have plummetted since the introduction of post-PC devices (tablets, e-readers, and smartphones). In 2013, total PC shipments fell 10 percent, and no one felt that more than leading PC-maker, HP. PC-makers dropped prices—some more than 50 percent—on laptops and some are offering touch screens to compete with tablets and mobile devices in an attempt to gain back market share. HP's former CEO wanted to shift strategic focus more toward offering software to business markets. Maybe he has read the future correctly and was on the right strategic path. With the game-changing introduction of tablets, mobile technology, and social media, the future is not what it used to be. The growth in mobile technology is there. HP just "missed the boat."

1. Explain which product/market expansion grid strategy PC-makers are pursuing to deal with the threat of post-PC mobile devices. Is this a smart strategy? (AACSB: Communication; Reflective Thinking)
2. Discuss how companies such as HP and other PC-makers can adapt to and capitalize on new online, mobile, or social media technologies. (AACSB: Communication; Reflective Thinking)

Focus on Ethics

In the United States 64 percent of women are overweight or obese, and less than half participate in regular physical activity. In Asia, the rapid modernization of China and other countries has produced an alarming spike in the rate of obesity and diabetes among their populations. As their economies grew, many Asian countries that were once agriculturally self-sufficient began importing high-fat, high-calorie foods that were never a major part of their traditional diets.

Athletic shoe marketers saw an opportunity in such trends: "toning shoes." Marketers tout these shoes as revolutionary; you can tone your muscles, lose weight, and improve your posture just by wearing them and going about your daily business. The claims are based on shoemaker-sponsored studies, and the Podiatric Medical Association agrees that toning shoes have some health value. They purportedly perform their magic by destabilizing a person's gait, making leg muscles work harder. Consumers, particularly women, are buying it. Sketchers saw a 69 percent increase in sales due to its shoe with a sole that looks like a rocking chair. Reebok expected toning shoe sales to increase. Toning shoes accounted for 20 percent of the women's performance footwear category in 2009, with prices ranging from $80 to more than $200.

However, these shoes have their critics, who claim a shoe that comes with an instruction booklet and an educational DVD to explain proper usage should wave warning flags to consumers. Some doctors claim the shoes are dangerous, causing strained Achilles tendons or worse; one wearer broke her ankle while wearing them. A study by the American Council on Exercise found no benefit in toning shoes over regular walking or other exercise. Noticeably absent from the toning shoe feeding frenzy is Nike, which thinks it's all hype and is sticking to traditional performance athletic shoes. This leader in the women's shoe market, however, is losing market share to competitors.

1. Should these shoemakers capitalize on consumers who want to be fit without doing the work to achieve that goal? Do you think that basing claims on research sponsored by the company is ethical? Explain your reasoning. (AACSB: Communication; Ethical Reasoning)
2. Should Nike have entered this product category instead of giving up market share to competitors? Explain your reasoning. (AACSB: Communication; Ethical Reasoning)

Marketing & the Economy

Southwest Airlines

As more and more consumers cut back on spending, perhaps no industry has been hit harder than the airline industry. Even Southwest Airlines, which has posted profits in every one of its 37 years of operation, has felt the pinch. Although Southwest Airlines has suffered less than other airlines, recent passenger traffic has declined, driving down revenues in each of the last two years, which has also hit the company's profits and stock price. So what's Southwest Airlines doing about this? For starters, it is expanding beyond the 70-plus cities it now serves and is beginning new flights to heavily trafficked airports. It is also attempting to sweeten the ride by boosting wine and coffee service and rolling out onboard Wi-Fi. But perhaps more important is what no-frills Southwest Airlines *isn't* doing—adding fees. Other airlines are generating millions of dollars in revenues by charging for basics, such as checking baggage, sitting in aisle seats, or using pillows. But Southwest Airlines insists that such fees are no way to grow an airline. Other attempts to jump-start demand include an ad campaign urging consumers to continue traveling despite the still-sluggish economy and a company-wide fare sale with one-way rates as low as $49. It hopes that these efforts will bring customers back and curb the revenue slide.

1. Consider every tactic that Southwest Airlines is employing to curtail slumping sales. Evaluate the degree to which each is effective at accomplishing its goal.
2. Are the company's efforts enough? Is it possible for Southwest Airlines to reverse the effects of a strong industry slump?

Marketing by the Numbers

Appendix 2 discusses other marketing profitability metrics beyond the marketing ROI measure described in this chapter. Below are the profit-and-loss statements for two businesses. Review Appendix 2 and answer the following questions.

1. Calculate marketing return on sales and marketing ROI for both companies, as described in Appendix 2. (AACSB: Communication; Analytic Thinking)
2. Which company is doing better overall and with respect to marketing? Explain. (AACSB: Communication; Analytic Reasoning; Reflective Thinking)

Business A

Net sales		$800,000,000
Cost of goods sold		375,000,000
Gross margin		$425,000,000
Marketing expenses		
Sales expenses	$70,000,000	
Promotion expenses	30,000,000	
		100,000,000
General and administrative expenses		
Marketing salaries and expenses	$10,000,000	
Indirect overhead	80,000,000	
		90,000,000
Net profit before income tax		$235,000,000

Business B

Net sales		$900,000,000
Cost of goods sold		400,000,000
Gross margin		$500,000,000
Marketing expenses		
Sales expenses	$90,000,000	
Promotion expenses	50,000,000	
		140,000,000
General and administrative expenses		
Marketing salaries and expenses	$ 20,000,000	
Indirect overhead	100,000,000	
		120,000,000
Net profit before income tax		$240,000,000

Video Case

Live Nation

Live Nation may not be a household name. But if you've been to a U.S. concert in the past few years, chances are you've purchased a Live Nation product. In fact, Live Nation has been the country's largest concert promoter for many years, promoting as many as 29,000 events annually. But through very savvy strategic planning, Live Nation is shaking up the structure of the music industry.

A recent $120 million deal with Madonna illustrates how this concert promoter is diving into other businesses as well. Under this deal, Live Nation will become Madonna's record label, concert promoter, ticket vendor, and merchandise agent. Similar deals have been reached with other performers such as Jay-Z and U2.

But contracting with artists is only part of the picture. Live Nation is partnering with other corporations as well. A venture with Citi will expand its reach to potential customers by leveraging on database technologies. Joining forces with ticket reseller powerhouses such as StubHub will give Live Nation a position in the thriving business of secondary ticket sales.

After viewing the video featuring Live Nation, answer the following questions about the role of strategic planning:

1. What is Live Nation's mission?
2. Based on the product/market expansion grid, provide support for the strategy that Live Nation is pursuing.
3. How does Live Nation's strategy provide better value for customers?

Company Case

Dyson: Solving Customer Problems in Ways They Never Imagined

From a head-on perspective, it has a sleek, stunning stainless steel design. With wings that extend downward at a 15-degree angle from its center, it appears ready for takeoff—the latest aeronautic design from Boeing? No. It's the most innovative sink faucet to hit the market in decades. Dyson Ltd.—the company famous for vacuum cleaners, hand dryers, and fans unlike anything else on the market—is about to revolutionize the traditional faucet. The Airblade Tap—a faucet that washes and dries hands with completely touch-free operation—is the latest in a line of revolutionary Dyson products that have reinvented their categories. In fact, Dyson was founded on a few very simple principles. First, every Dyson product must provide real consumer benefits that make life easier. Second, each product must take a totally unique approach to accomplishing common, everyday tasks. Finally, each Dyson product must infuse excitement into products that are so mundane that most people never think much about them.

James Dyson was born and raised in the United Kingdom. After studying design at the Royal College of Art, he had initially planned to design and build geodesic structures for use as commercial space. But with no money to get his venture started, he took a job working for an acquaintance who handed him a blow torch and challenged him to create a prototype for an amphibious landing craft. With no welding experience, he figured things out on his own. Before long, the company was selling 200 boats a year based on his design. That trial-and-error approach came naturally to Dyson, who applied it to create Dyson Inc.'s first product.

In 1979, he purchased what its maker claimed was the most powerful vacuum cleaner on the market. He found it to be anything but. Instead, it seemed simply to move dirt around the room. This left Dyson wondering why no one had yet invented a decent vacuum cleaner. At that point, he remembered something he'd seen in an industrial sawmill—a cyclonic separator that removed dust from the air. Why wouldn't that approach work well in vacuum cleaners? "I thought no one was bothering to use technology in vacuum cleaners," said Dyson. Indeed, the core technology of vacuum motors at the time was more than 150 years old. "I saw a great opportunity to improve." Dyson then did something that very few people would have the patience or the vision to do. He spent 15 years and made 5,127 vacuum prototypes—all based on a bagless cyclonic separator— before he had the one that went to market. He said, "There were 5,126 failures. But I learned from each one. That's how I came up with a solution."

Dyson's all-new vacuum was far more than techno-gadgetry. Dyson had developed a completely new motor that ran at 110,000 revolutions per minute—three times faster than any other vacuum on the market. It provided tremendous suction that other brands simply couldn't match. The bagless design was very effective at removing dirt and particles from the air, and the machine was much easier to clean out than vacuums requiring the messy process of changing bags. The vacuum also maneuvered more easily and could reach places other vacuums could not. Dyson's vacuum really worked. With a finished product in hand, Dyson pitched it to all the appliance makers. None of them wanted it.

So Dyson borrowed $900,000 and began manufacturing the vacuum himself. He then convinced a mail-order catalog to carry the Dyson instead of Hoover or Electrolux because, as he told them, "your catalog is boring." Dyson vacuums were soon picked up by other mail order catalogs, then by small appliance chains, and then by large department stores. By the late 1990s, Dyson's full line of vacuums was being distributed in multiple global markets. At that point, Dyson, the company that had quickly become known for vacuum cleaners, was already moving on to its next big thing.

During the development of Dyson's vacuums, a development model began to take shape. Take everyday products, focus on their shortcomings, and improve them to the point of reinvention. "I like going for unglamorous products and making them a pleasure to use," Dyson told *Fortune* magazine. By taking this route, the company finds solutions to the problems it is trying to solve.

At the same time, it sometimes finds solutions for other problems. For example, the vacuum motor Dyson developed sucked air with unprecedented strength. But the flipside of vacuum suction is exhaust. Why couldn't such a motor blow air at wet hands so fast that the water would be pressed off in a squeegee-like manner, rather than the slow, evaporative approach employed by commercial hand dryers? With that realization, Dyson created and launched the Airblade, a hand dryer that blows air through a 0.2-millimeter slot at 420 miles per hour. It dries hands in 12 seconds, rather than the more typical 40 seconds required by other hand dryers. It also uses cold air—a huge departure from the standard warm air approach of existing commercial dryers. This not only reduced energy consumption by 75 percent—a major bonus for commercial enterprises that pay the electric bills—but customers were much more likely to use a product that worked fast and did the job right.

With very observable benefits, the Airblade was rapidly adopted by commercial customers. Today's Airblades have evolved, guided by Dyson's customer-centric approach to developing products. With the first Airblade, it was apparent that all that high-powered air is noisy. So Dyson spent seven years and a staggering $42 million to develop the V4 motor, one of the smallest and quietest commercial motors available. The new Airblade is quieter and almost six pounds lighter than the original. But even more advanced is Dyson's new Blade V, a sleeker design that is 60 percent thinner than the Airblade, protruding only four inches from the wall.

Although Dyson sees itself as a technology-driven company, it develops products with the end-user in mind. But rather than using traditional market research methods, Dyson takes a different approach. "Dyson avoids the kind of focus group techniques that are, frankly, completely averaging," says Adam Rostrom, group marketing director for Dyson. "Most companies start with the consumer and say, 'Hey Mr. or Mrs. X, what do you want from your toothbrush tomorrow or what do you want from your shampoo tomorrow?' The depressing reality is that you often won't get many inspiring answers." Rather, Dyson uses an approach it calls "interrogating products" to develop new products that produce real solutions to customer problems. After identifying the most obvious shortcomings for everyday products, it finds ways to improve them. Dyson's philosophy is so focused on solving customer problems, he even developed the James Dyson Award—the top prize at an annual contest that challenges college students to design something that solves a problem. Once a problem-centered design is in place, the company then tests prototypes with real consumers under heavy nondisclosure agreements. In this manner, Dyson can observe consumer reactions in the context of real people using products in their real lives. This approach enables Dyson to develop revolutionary products like the Air Multiplier, a fan that moves large volumes of air around a room with no blades. In fact, the Air Multiplier looks nothing like a fan. By using technology similar to that found in turbochargers and jet engines, the Air Multiplier draws air in, amplifies it 18 times, and spits it back out in an uninterrupted stream that eliminates the buffeting and direct air pressure of conventional fans. Referring to the standard methods of assessing customer needs and wants, Rostrom explains, "If you . . . asked people what they wanted from their fan tomorrow, they wouldn't say 'get rid of the blades.' Our approach is about product breakthroughs rather than the approach of just running a focus group and testing a concept."

At Dyson Ltd., innovation never ends. On a daily basis, James Dyson collaborates on top secret projects—many of them 5 to 10 years away from completion—with a sample of the company's army of designers and engineers. Its newest vacuum cleaner—the DC59 Animal—is yet another example of how Dyson's innovation cycle continues. It's cordless, weighs less than five pounds, is designed to be handheld, and boasts three times the suction of any other handheld vacuum on the market—cordless or not. The company is not only continuing to demonstrate that it can come up with winning products again and again, it is expanding throughout the world at a rapid pace. Dyson products are sold in over 50 global markets, selling well in emerging economies as well as developed first-world nations. Dyson does well in both economic good times and recessionary periods. From a single vacuum cleaner to what Dyson is today in less than 20 years—that's quite an evolution.

Questions for Discussion

1. Write a market-oriented mission statement for Dyson.
2. What are Dyson's goals and objectives?
3. Does Dyson have a business portfolio? Explain.
4. Discuss Dyson's marketing mix techniques and how they fit within the context of its business and marketing strategy.
5. Is Dyson a customer-centered company? Explain.

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Objective Outline

OBJECTIVE 1

Describe the environmental forces that affect the company's ability to serve its customers.

The Microenvironment (73–75)

The Macroenvironment (75)

OBJECTIVE 2

Explain how changes in the demographic and economic environments affect marketing decisions.

The Demographic Environment (76–79)

The Economic Environment (79–83)

OBJECTIVE 3

Identify the major trends in the firm's natural and technological environments.

The Natural Environment (83–85)

The Technological Environment (85)

OBJECTIVE 4

Explain the key changes in the political and cultural environments.

The Political Environment (86–88)

The Cultural Environment (88–91)

OBJECTIVE 5

Discuss how companies can react to the marketing environment.

Responding to the Marketing Environment (91–92)

Chapter 3

The Marketing Environment

Previewing the Concepts

In Part 1 (Chapters 1 and 2), you learned about the basic concepts of marketing and the steps in the marketing process for building profitable relationships with targeted consumers. In Part 2, we'll look deeper into the first step of the marketing process—understanding the marketplace and customer needs and wants. In this chapter, you'll discover that marketing operates in a complex and changing environment. Other *actors* in this environment—suppliers, intermediaries, customers, competitors, publics, and others—may work with or against the company. Major environmental *forces*—demographic, economic, natural, technological, political, and cultural—shape marketing opportunities, pose threats, and affect the company's ability to serve customers and develop lasting relationships with them. To understand marketing, and to develop effective marketing strategies, you must first understand the environment in which marketing operates.

First, we'll look at the Indian skincare market for men. The shifting marketing environment has brought about opportunities for skincare brands in the male consumer goods market.

Hindustan Unilever: Skincare Products for Men

A popular movie star endorsing a skin cream that will lighten the complexion with visible results within a week or two—this is a common storyline that has been fed to Indian consumers for years. The only visible difference is that now you'll probably see a good looking male actor highlighting the positives of the product to a large group of young men in the country.

Skin care is a sensitive area for many consumers, and advertisers have for some time now focused on the insecurities of the consumers. Fairness creams in particular have focused more on the female consumer. In India, ads have often portrayed dark-skinned individuals, mostly women, as having low self-esteem and fewer friends, and indicated that fairer skin increases the chances of a woman getting the man. A culmination of extensive marketing and a growing desire for fairer skin accounted for such products owning a whopping 80 percent of the country's skin care market.

However, the focus is shifting to men and overall grooming, with Asia being one of the fastest growing markets for men's skin care. It is estimated that the market for male grooming products in India will grow at a compound annual growth rate (CAGR) of 22 percent till 2020, and The Nielsen Company (global information and measurement company) expects the male grooming market in India to reach $750 million, with a CAGR of 11 percent by 2016. This growth is driven mainly by consumer awareness about the products and brands. The demand for better grooming products and skin care regimes is the result of an increase in promotional campaigns and advertisements by leading skin care companies—like L'Oréal India, Hindustan Unilever (HUL), and Emami—coupled with rapid urbanization. And while consumer awareness may have been limited to urban India, it is expected to change with growth drivers focusing on the overall skin care market in the country.

India's mass market product leader is Fair & Lovely by HUL. Launched in 1975, Fair & Lovely can be found in several countries such as Africa, the Middle East, and Asia where a pale complexion is desirable. In 2014, with a 48 percent market value share, HUL continued on its growth trajectory and the company's frontrunners—which include

HUL is responding to the changing market environment by filling in the gaps in their product range

brands like Fair & Lovely, Pond's, and Lakmé—became household names in urban and rural India due to the trust they have established and their assurance of quality and price satisfaction.

Till early 2014, the market for HUL was limited to brands like Vaseline for Men, Fair & Lovely Max, and Axe deodorant. In 2005, HUL faced a lot of competition from Emami, who had enlisted Bollywood heart throb Shah Rukh Khan as the brand ambassador for the Fair & Handsome skin cream, helping them garner a 70 percent share of the Indian men's fairness cream market. By using the male population's increased awareness about the importance of facial care, whether it is for personal hygiene, social status, or professional growth, HUL is responding to the changing market environment by filling in the gaps in their product range and customizing face creams to specific skin types and climates. They are bringing athletes and movie stars on board as brand ambassadors—Varun Dhawan, a Bollywood actor, is the face for Pond's Men and Saif Ali Khan is promoting the Fair & Lovely face wash. HUL even used cricket superstar Sachin Tendulkar's 200th and final test match as an advertising pitch. As as part of its promotional strategies for Fair & Lovely for men, the brand was displayed across the cricket stadium while the match was in progress. The rationale behind this campaign was to rule over television viewing during a cricket match using in-stadium branding instead of television commercials.

HUL is improving customer services by looking at how easily consumers are able to access the company's products and how effectively the company can engage with consumers. This aim has driven their innovation research and marketing initiatives, and their engagement with consumers in remote areas of India. Their exploration in the mobile platform has resulted in the digital initiative for the personal care brands, 'Be Beautiful', which is an example of how HUL is using social media to build powerful brands and meet consumer needs. This platform, with 3.5 million visitors annually, seven million engaged users on Facebook, and over 40 million views on YouTube, is probably one of the largest beauty advisory platforms in India and an example of how different segments of the diverse Indian population are brought together through media innovation.

With brands like Garnier and Nivea entering the market with face washes, sunscreens, and oil-control moisturizers and vying for a fair share in the growing male skincare segment, HUL's focus is on innovation across their product portfolio, especially in personal products, detergents, and oral care. The company will continue to invest on its part in India's growth story—Serving Many Indias—and has identified that the country essentially needs a brand portfolio that will reach a wider section of the country and be available across financial groups. To meet these goals, HUL is building their internal resources in terms of leaders and skills across operations value chains to meet the growing specialized demands.[1]

A company's **marketing environment** consists of the actors and forces outside marketing that affect marketing management's ability to build and maintain successful relationships with target customers. Successful companies know the vital importance of constantly watching and adapting to the changing environment.

More than any other group in the company, marketers must be the environmental trend trackers to tap on opportunities. They have disciplined methods—marketing research and marketing intelligence—for collecting information about the marketing environment. They also spend more time in the customer and competitor environments. By carefully studying the environment, marketers can adapt their strategies to meet new marketplace challenges and opportunities.

The marketing environment consists of a *microenvironment* and a *macroenvironment*. The **microenvironment** comprises the actors close to the company that affect its ability to serve its customers—the company, suppliers, marketing intermediaries, customer markets, competitors, and publics. The **macroenvironment** comprises the larger societal forces that affect the microenvironment—demographic, economic, natural, technological, political, and cultural forces. We look first at the company's microenvironment.

Marketing environment
The actors and forces outside marketing that affect marketing management's ability to build and maintain successful relationships with target customers.

Microenvironment
The actors close to the company that affect its ability to serve its customers—the company, suppliers, marketing intermediaries, customer markets, competitors, and publics.

Macroenvironment
The larger societal forces that affect the microenvironment—demographic, economic, natural, technological, political, and cultural forces.

The Company's Microenvironment

Figure 3.1 shows the major actors in the marketer's microenvironment.

The Company

In designing marketing plans, marketing management takes other company groups into account—groups such as top management, finance, research and development (R&D), purchasing, operations, and accounting. These groups form the internal environment. Top management sets the company's mission, objectives, broad strategies, and policies. Marketing managers make decisions within the strategies and plans made by top management. As discussed in Chapter 2, marketing managers must work closely with other company departments to provide superior customer value and satisfaction.

Suppliers

Suppliers form an important link in the company's overall customer value delivery system. They provide the resources needed by the company to produce its goods and

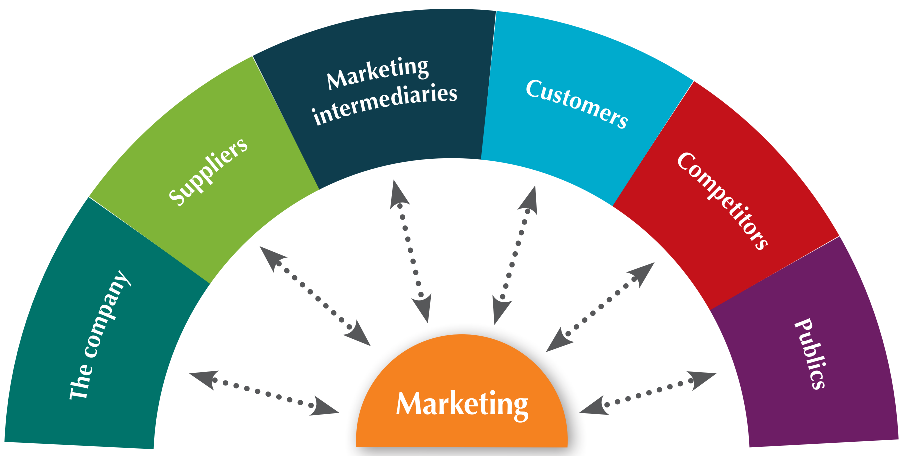


FIGURE 3.1
Actors in the microenvironment

services. Marketing managers must watch supply availability as supply shortages or delays, labor strikes, and other events can cost sales in the short run and damage customer satisfaction in the long run. Marketing managers also monitor the price trends of their key inputs. Rising supply costs may force price increases that can harm the company's sales volume.

Marketing intermediaries
Firms that help the company to promote, sell, and distribute its goods to final buyers. They include resellers, physical distribution firms, marketing service agencies, and financial intermediaries.

Marketing Intermediaries

Marketing intermediaries help the company to promote, sell, and distribute its products to final buyers. They include resellers, physical distribution firms, marketing services agencies, and financial intermediaries.

- *Resellers* are distribution channel firms that help the company find customers or make sales to them. These include wholesalers and retailers, who buy and resell merchandise. Some are small while others are large such as Wal-Mart, Carrefour, and Giant. These organizations have enough power to dictate terms or even shut smaller manufacturers out of large markets.
- *Physical distribution firms* help the company to stock and move goods from their points of origin to their destinations.
- *Marketing services agencies* are the marketing research firms, advertising agencies, media firms, and marketing consulting firms that help the company target and promote its products to the right markets.
- *Financial intermediaries* include banks, credit companies, insurance companies, and other businesses that help finance transactions or insure against the risks associated with the buying and selling of goods.

❯ Wal-Mart is mindful of the intense local competition it faces in China.

Marketers recognize the importance of working with their intermediaries as partners rather than as channels through which they sell their products. For example, when Coca-Cola signs on as the exclusive beverage provider for a fast-food chain, such as McDonald's or Subway, it provides much more than just soft drinks. It also pledges powerful marketing support. Coca-Cola assigns cross-functional teams dedicated to understanding the finer points of each retail partner's business. It conducts a staggering amount of research on beverage consumers and shares these insights with its partners. It analyzes the demographics of zip code areas and helps partners to determine which Coke brands are preferred in their areas. Coca-Cola has even studied the design of drive-through menu boards to better understand which layouts, fonts, letter sizes, colors, and visuals induce consumers to order more food and drink. Such intense partnering efforts have made Coca-Cola a runaway leader in the U.S. fountain soft drink market.[2]

❯ **Partnering with marketing intermediaries** – Coca-Cola provides its retail partners with much more than just soft drinks. It also pledges powerful marketing support.

Customers

The company might target any or all five types of customer markets:

- *Consumer markets* consist of individuals and households that buy goods and services for personal consumption.
- *Business markets* buy goods and services for further processing or for use in their production process.
- *Reseller markets* buy goods and services to resell at a profit.
- *Government markets* are made up of government agencies that buy goods and services to produce public services or transfer the goods and services to others who need them.

- *International markets* consist of these buyers in other countries, including consumers, producers, resellers, and governments. Each market type has special characteristics that call for careful study by the seller.

Competitors

The marketing concept states that to be successful, a company must provide greater customer value and satisfaction than its competitors. Thus, marketers must do more than adapt to the needs of target consumers. They also must gain strategic advantage by positioning their offerings strongly against competitors' offerings in the minds of consumers.

No single competitive marketing strategy is best for all companies. Each firm should consider its own size and industry position compared to those of its competitors. Large firms with dominant positions in an industry can use certain strategies that smaller firms cannot afford. Small firms can develop strategies that give them better rates of return than large firms enjoy.

Publics

The company's marketing environment also includes various publics. A **public** is any group that has an actual or potential interest in or impact on an organization's ability to achieve its objectives. We can identify seven types of publics.

Public
Any group that has an actual or potential interest in or impact on an organization's ability to achieve its objectives.

- *Financial publics* influence the company's ability to obtain funds. Banks, investment houses, and stockholders are the major financial publics.
- *Media publics* carry news, features, and editorial opinions. They include newspapers, magazines, and radio and television stations.
- *Government publics* and their developments must be taken into account by management. Marketers must often consult the company's lawyers on issues of product safety, truth in advertising, and other matters.
- *Citizen-action publics* such as consumer organizations, environmental groups, minority groups, and others may question the company's marketing decisions. Its public relations department can help it stay in touch with consumer and citizen groups.
- *Local publics* include neighborhood residents and community organizations. Large companies usually appoint a community relations officer to deal with the community, attend meetings, answer questions, and contribute to worthwhile causes.
- *The general public*'s attitude towards a company's products and activities is something the company needs to be concerned about. The public's image of the company affects its buying.
- *Internal publics* include workers, managers, volunteers, and the board of directors. Large companies use newsletters and other means to inform and motivate their internal publics. When employees feel good about their company, this positive attitude spills over to external publics.

The Company's Macroenvironment

The company and all of the other actors operate in a larger macroenvironment of forces that shape opportunities and pose threats to the company. **Figure 3.2** shows the six major forces in the company's macroenvironment.

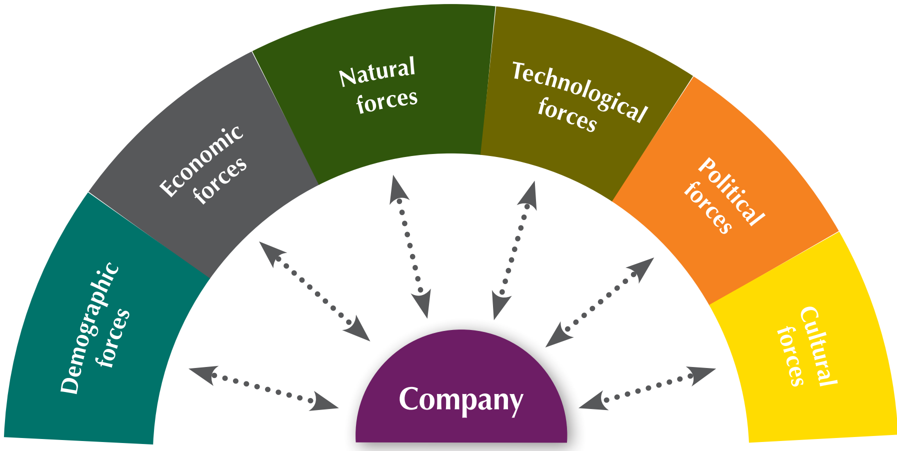


FIGURE 3.2
Major forces in the company's macroenvironment

Demographic Environment

Demography
The study of human population in terms of size, density, location, age, gender, race, occupation, and other statistics.

Demography is the study of human populations in terms of size, density, location, age, gender, race, occupation, and other statistics. The demographic environment is of major interest to marketers because it involves people, and people make up markets. The world population is growing at an explosive rate. It now exceeds 6.8 billion people and will exceed 8.1 billion by the year 2030.[3] The world's large and highly diverse population poses both opportunities and challenges. **Figure 3.3** shows factors in the demographic environment that influence the company.

Changes in the world demographic environment have major implications for business. For example, consider China. About 40 years ago, to curb its skyrocketing population, the Chinese government passed regulations limiting families to one child each. As a result, China's youth born after 1980—called "balinghou" (八零后) or the "Me generation" by their elders—have been showered with attention and luxuries resulting in what's known as the "little emperor" or "little empress" syndrome. As many as six adults (two parents and four doting grandparents) may be indulging the whims of each only child—all 600 million of them (almost twice the entire U.S. population). Parents with only one child at home spend about 40 percent of their income on their cherished child.[4]

China's Me generation, now ranging in age from newborns to the early 30s, is affecting markets for everything from children's products to financial services, mobile phone services, and luxury goods. For example, Starbucks is targeting

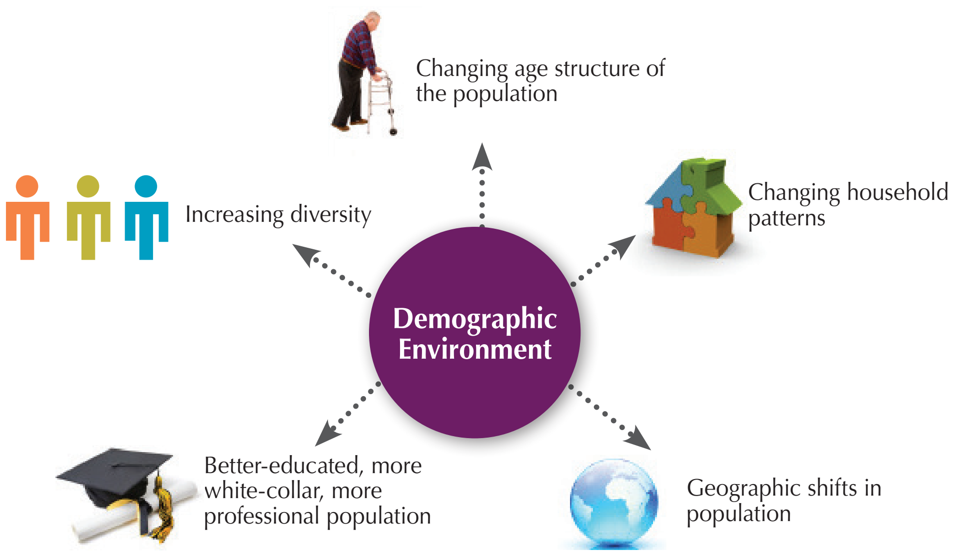


FIGURE 3.3
The demographic environment

China's Me generation, positioning itself as a new kind of informal but indulgent meeting place.[5]

Starbucks China – China's one-child rule created a generation of people who have been pampered by parents and grandparents and have the means to make indulgent purchases. Instead of believing in traditional Chinese collective goals, these young people embrace individuality. "Their view of this world is very different," says the president of Starbucks Greater China. "They have never gone through the hardships of our generation." Starbucks is in sync with that, he says, given its customized drinks, personalized service, and original music compilations. "In the U.S., most of Starbucks' business is takeaway," says one analyst. "It is the opposite in China. [Young] people go to [Starbucks] as a destination and spend hours there. They like to be seen as chic and cosmopolitan."

› Demographics and business – Chinese regulations limiting families to one child have resulted in what's been known as the "six-pocket syndrome." Chinese children are being showered with attention and luxuries, creating opportunities for marketers. However, this policy is being phased out since.

Another outcome of the one-child policy is the rise of gender-specific abortions where sons are preferred to daughters. The gender imbalance among newborns will result in more than 24 million Chinese men of marrying age without spouses in 2020. Given the attending problems, the one-child policy was phased out in 2016.[6]

Thus, marketers keep close track of demographic trends and developments in their markets, both at home and abroad. They track changing age and family structures, geographic population shifts, educational characteristics, and population diversity.

Changing Age Structure of the Population

In general, the three largest age groups are the baby boomers, Generation X, and Millenials.

The Baby Boomers

Baby boomers are people born post–World War II between 1946 and 1964. Baby boomers cut across all walks of life. But marketers typically have paid the most attention to the smaller upper crust of the boomer generation—its more educated, mobile, and wealthy segments. As they reach their peak earning and spending years, the boomers constitute a lucrative market for new housing and home remodeling, financial services, travel and entertainment, eating out, health and fitness products, and just about everything else. Boomers are also likely to postpone retirement. Rather than viewing themselves as phasing out, they see themselves as entering new life phases. Perhaps no one is targeting the baby boomers more fervently than the financial services industry. Ageing boomers are transferring their retirement nest eggs and other savings into new investments, and need money management advice.

Baby boomers
The 78 million people born during the baby boom following World War II and lasting till the early 1960s.

Aeon – Tapping on the baby boomers in Japan is the $18 billion funeral industry. Japan's population is aging faster than any other nation. Undertakers are offering cheaper funerals to snatch market share from the "mom-and-pop" parlors that dominate the industry. Aeon, Japan's second largest retailer, has also entered this business. Since funeral companies control the entire process from when a person passes on at the hospital to discussions with the chief mourner and gifts at the funeral, Aeon sees this as an opportunity to sell more gifts and funeral items.[7]

Generation X
The people born between 1965 and 1976 in the "birth dearth" following the baby boom.

Millennials (or Generation Y)
The children of the baby boomers, born between 1977 and 2000.

Generation Xers like the young parents shown here tend to value a better quality of life and family more.

However, not all boomers are an easy sell. They may have more money but they are also likely to be careful with it. In China, the over-60s have suffered through war and the Cultural Revolution. They tend to have little desire for consumer goods and do not like to indulge themselves. Thus, one way to interest them is to play on financial security as many insurers are doing, or on general worries about safety.[8]

Generation X

This is the generation of people born between 1965 and 1976. They are called **Generation X** because they lie in the shadow of the boomers.

The Generation Xers are defined as much by their shared experiences as by their age. Increasingly higher employment for their mothers may have made them first-generation latchkey kids. They care about the environment and respond favorably to socially responsible companies. Although they seek success, they are less materialistic and prize experience, not acquisition. They are cautious romantics who want a better quality of life and are more interested in job satisfaction than in sacrificing personal happiness and growth for promotion. For many Gen Xers who are parents, family comes first, career second.[9]

As a result, the Gen Xers are more skeptical. "Marketing to Gen Xers is difficult," says one marketer, "and it's all about word of mouth. You can't tell them you're good, and they have zero interest in a slick brochure that says so … They have a lot of 'filters' in place." Another marketer agrees: "Sixty-three percent of this group will research products before they consider a purchase. [They are also] creating extensive communities to exchange information. Even though nary a handshake occurs, the information swap is trusted and thus is more powerful than any marketing pitch ever could be."[10]

Millennials

The **Millennials** (or **Generation Y**) are born between 1977 and 2000. These are children of the baby boomers. The echo boom has created a large teen and young adult market.

One distinguishing characteristic of the Millennials is their utter fluency and comfort with computer, digital, and Internet technology. Asian Millennials are tech-savvy. In Singapore, three-quarters of those aged 13 to 18 go online more than once weekly, with 44 percent using the Internet daily. In India, 44 percent of Internet users are aged 19 to 24. In Japan, 98 percent of Tokyo teens use the Internet—through the *keitai* or mobile phone. It is the most common technological object in modern Japan, allowing youth to seek information, email, social life, games, travel guides, purchasing and store credits, and so on.[11]

The Millenials represent an attractive target for marketers. However, reaching this message-saturated segment effectively requires creative marketing approaches. For example, the popularity of action sports with Millennials has provided creative marketing opportunities for products ranging from clothes to video games, movies, and beverages.

The *keitai*, or mobile phone, is the most common technological object in modern Japan, used by many Japanese youth as a daily communicating device in their lives.

Generational Marketing

Do marketers need to create separate products and marketing programs for each generation? Some experts warn that marketers must be careful about turning off one generation each time they craft a product or message that appeals effectively to another. Others caution that each generation spans decades of time and many socioeconomic levels. For example, marketers often split the baby boomers into three smaller groups—leading boomers, core boomers, and trailing boomers—each with its own beliefs and behaviors. Similarly, they split the Millennials into tweens, teens, and young adults. Thus, marketers need to form more precise age-specific segments within each group. More importantly, defining people by their birth date may be less effective than segmenting them by their lifestyle or life stage.

Geographic Shifts in Population

The world has more of its population living in towns and cities than in the rural areas. In Asia, there is a migration from rural to urban cities, although much of the shift is to outlying areas around mega-cities and medium-sized towns rather than major cities.[12] In China, the migration of workforces and subsequent rise in income levels has seen a proliferation of the number of urban households. A major trend emerging from this urban migration is a growing number of single-person households as families separate to take advantage of opportunities outside their home town and young people choose to leave homes earlier.[13]

A Better-Educated, More White-Collar, More Professional Population

The world population is becoming better educated. The rising number of educated people will increase the demand for quality products, books, magazines, travel, personal computers, and Internet services. The workforce also is becoming more white-collar. In Japan, 99 percent of the population is literate, although the rate is much lower in the less developed countries and rural communities in Asia.

Increasing Diversity

Countries vary in their ethnic and racial makeup. At one extreme is Japan, where almost everyone is Japanese. At the other extreme is the United States with people from virtually all nations. Marketers are facing increasingly diverse markets, both at home and abroad, as their operations become more international in scope. In Asia, for instance, some banks have introduced Islamic banking to cater to the Muslim market, where the notion of interest, earned and charged, is considered incongruent with their faith.

Increasing diversity – The growth in Islamic banking caters to the Muslim market where the notion of interest, earned and charged, is considered incongruent with their faith.

Beyond ethnic diversity, there is also the gay market. The so-called "Pink Dollar" is also being courted in more conservative Asia. Consider Singapore. Some 65 percent of readers of *Manazine* are gay, and the magazine has attracted mainstream advertisers such as British Airways, Levi Strauss, and Calvin Klein. The developer of The Arris, an upmarket apartment complex in Singapore, appealed to "affluent, cosmopolitan professionals" with an ad featuring a well-sculpted naked body standing beside a swimming pool. With the tagline, "City living has never been so tempting," it reflected the ad's subtle positioning. Over half of the 100,000 regional members of Fridae, a gay and lesbian network, earn more than $26,500 annually. Fridae organizes an annual party in Singapore, attracting over 5,000 local and regional gays and lesbians. Its CEO notes that gays and lesbians have the potential to be extremely loyal customers and are arbiters of what's hot and trendy, as the community is more adventurous in product, brand, and service selection.[14]

Economic Environment

Markets require buying power as well as people. The **economic environment** comprises factors affecting consumer purchasing power and spending patterns (see **Figure 3.4**). Marketers must pay close attention to major trends and consumer spending patterns both within their markets and across the world. (See **Real Marketing 1.1** on how Chinese web portal Tencent became a billion-dollar business).

Economic environment
Factors that affect consumer buying power and spending patterns.

Nations vary greatly in the levels and distribution of income. Some countries have *industrial economies* which constitute rich markets for many different kinds of goods. In contrast, others have *subsistence economies*, consuming most of their own

Real Marketing 3.1

Turning Tencent into Billions

Tencent Holdings Limited, a Chinese investment holding company, has reoriented its approach to overseas growth, focusing on investment in smaller foreign firms.

In less than 15 years Ma Huateng, also known as Pony Ma, has built Tencent into a $50bn company. In 2012, at the age of 40 and with a self-made fortune estimated by *Forbes* magazine at around $4.7bn, Ma is China's Bill Gates, Mark Zuckerberg and Sergey Brin rolled into one. But if you live outside China or don't speak Chinese, chances are fairly high that you've never heard of him; nor of his company, Tencent, the Web portal he founded that now ranks as China's biggest Internet company and one of the 10 most popular sites in the world. He rarely speaks to the media, but in an exclusive interview with National University of Singapore Business School, Ma said he remains firmly focused on taking Tencent and its cutesy penguin logo beyond China and onto the global stage. "When we introduced products that had been successful in China to overseas markets, we encountered many cultural differences," he said. "Even when we hired local teams to run them, it's still difficult to penetrate the market."

Opportunities

The Internet came relatively late to China, but in his mid-twenties Ma was among the first to see the potential opportunities presented by the Chinese market. Working for a Chinese telecoms firm as a young engineering graduate in the late 1990s, he was sent to a training program to the United States. There he quickly latched on to the new communications technologies then emerging; in particular the concept of instant messaging. Back in the southern Chinese boom town of Shenzhen, he launched a small start-up with a few friends aimed at replicating the instant messenger concept for the Chinese market.

What emerged was QQ—an instant messenger which rapidly added online dating, gaming and other social features. It quickly caught on and today it's the most popular instant messaging service in China, racking up more than 711 million active user accounts. Across China, Tencent employs more than 20,000 staff—up seven-fold since 2005, and makes more than half its revenue from online gaming via phenomenally popular titles such as *Cross Fire, QQ Dancer, QQ Speed, Dungeon and Fighter,* and *League of Legends*. Ma puts this success down to Tencent's deep understanding of the "highly complex" Chinese market, a factor he says foreign multinationals looking to tap into China's booming online economy tend to overlook.

Flexibility

Many overseas firms, he said, have tried to take products and business models that have succeeded elsewhere and apply them in China—without giving their Chinese teams the authority or flexibility to alter them to the local market. China offers huge promise for the growth of social media and online entertainment. In May, 2012 Ma announced a shakeup at Tencent aimed at boosting its services for smartphone and social network users. But if foreign companies want to tap into this, their best hope lies in teaming up with local partners who know the territory and understand Chinese culture. "Flying solo won't work," he said.

"You can see in the last decade or so, if local companies were to grow they had to be able to respond to the market quickly, because the internet could change in six months as much as it takes traditional industries to change in 10 years." New features, technologies and trends are emerging all the time, many of them with a strongly Chinese cultural focus, he said, and companies need to be able to react quickly to them.

Dominant

"In such a rapidly growing market as China, a highly localized, authorized and responsive team is vital," he said. "The response mechanism of multinationals simply cannot cope." Tencent's own rapid growth has not been without its share of critics, with some accusing the company of abusing its dominant position and copying ideas from smaller start-ups to put them out of business. The company has certainly received some unfavorable press in the Chinese media and the very active Chinese blogosphere, but Ma blames much of this on what he called "unfounded rumors." Tencent, he said was just one of several companies working in concert to grow and develop China's online sector, among them Baidu, Alibaba, Sina, Sohu, NetEase and others. "We are all growing together. I think our mission is to enlarge the cake and then share it," he said. However, Ma acknowledges that the firm has recently embarked on a change of business strategy. "In the past, we had a tight and closed development model. That drew a lot of criticism. But Tencent has begun a new era of reaching out, opening up all our resources to partners across the supply chain industry."

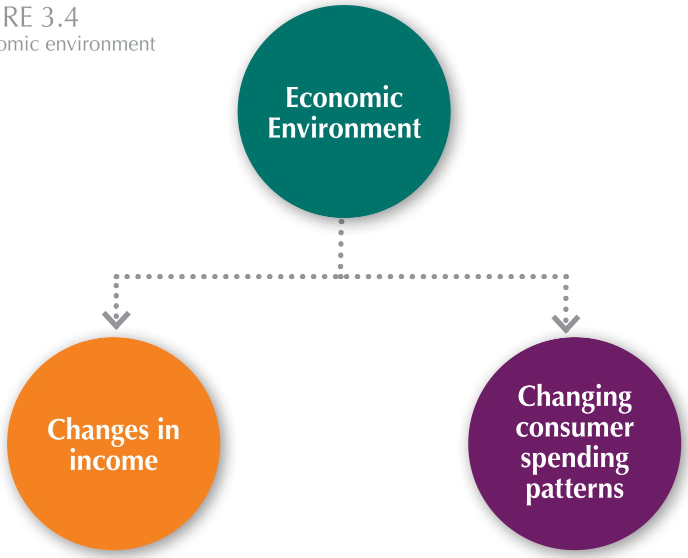
Open platform

One such step is to open up the supply chain to smaller companies in a similar way to Apple's App Store and Facebook. "One year on and it has proven highly successful. Our platform has provided the environment for many small and medium enterprises to thrive." At the same time, Ma has reoriented Tencent's approach to overseas growth, focusing on investment in smaller foreign firms. In 2011, for example, it took over the Los Angeles-based online game maker, Riot Games, for $400 million. And in 2012, it took a controlling stake in a Singapore-based game developer. "I think investing in local teams is a sound strategy because they are familiar with the local culture," Ma said. "The founders keep a stake in the company too, giving them long-term motivation for taking the company further. I think this a preferred direction—a win-win approach."

Source

Case by Joe Havely, "Turning Tencent into Billions," *Think Business,* 25 June 2012. Partially reproduced with permission of Think Business, NUS Business School, National University of Singapore (http://thinkbusiness.nus.edu). Copyright NUS Business School.

FIGURE 3.4
The economic environment



Economic environment – To capture India's growing middle class, Tata Motors introduced the small, affordable Tata Nano. "Can you imagine a car within the reach of all?" asks this advertisement. "Now you can."

agricultural and industrial output and offering few market opportunities. In between are *developing economies* for the right kinds of products.

Consider India with its 1.1 billion population. In the past, only India's elite could afford to buy a car. However, changes in India's economy have produced a growing middle class and rapidly rising incomes. Foreign automakers are now introducing smaller, more affordable vehicles into India. India's own Tata Motors has unveiled the Nano, "the people's car," at a price of 100,000 rupees (about $2,500). It can seat four passengers, get 21 kilometers per liter, and travels at a top speed of 96 kilometers per hour.[15]

Changes in Income

Marketers should pay attention to *income distribution* as well as average income. At the top are *upper-class* consumers whose spending patterns are not affected by current economic events and who are a major market for luxury goods. There is a comfortable *middle class* that is somewhat careful

Different companies appeal to different income segments. While Daiso targets at the value-for-money mass market with $1.99 offerings, Levi's offerings cover a range to target at various segments.

about its spending but can still afford the good life some of the time. The *working class* must stick close to the basics of food, clothing, and shelter and must try hard to save. Finally, the *underclass* (persons on welfare and many retirees) must count their pennies when making even the most basic purchases.

This distribution of income has created a tiered market. Many companies—such as Takashimaya—aggressively target the affluent. Others—such as the $1.99 stores—target those with more modest means. Still other companies tailor their marketing offers across a range of markets, from the affluent to the less affluent. For example, Levi Strauss markets several different jeans lines. There is the low-priced Signature line, moderately priced Red Tab line, boutique lines such as Levi's [Capital E] and Warhol Factory X Levi's.[16]

Changing Consumer Spending Patterns

Food, housing, and transportation take up the bulk of household incomes. However, consumers at different income levels have different spending patterns. As family income rises, the percentage spent on food declines, the percentage spent on housing remains about constant (except for utilities such as gas, electricity, and public services, which decrease), and both the percentage spent on most other categories and that devoted to savings increase.

Changes in major economic variables such as income, cost of living, interest rates, and savings and borrowing patterns have a large impact on the marketplace. Companies watch these variables by using economic forecasting so that they will not be wiped out by an economic downturn or caught short in a boom. With adequate warning, they can take advantage of changes in the economic environment.

The global recession has seen many Japanese consumers who used to buy $100 melons and $1,000 handbags become Wal-Mart shoppers. While sales at Seiyu, Wal-Mart's subsidiary, increased, those at Louis Vuitton, a long-time favorite brand among Japanese, plunged. Japanese consumers snapped up Seiyu's $6 bottles of wine, $86 suits, and $87 bicycles.[17] Seiyu's *bento*, lunch in a box of rice and grilled salmon, also became popular.[18]

However, cosmetics brands Shiseido, Kao, and Kose focused on luxury cosmetics instead of mid-priced offerings. The recession-proof buying power lay with Japanese women in their 40s and older. These consumers acquired a taste and eye for beauty care during the economic bubble and are still willing to spend on cosmetics. Kao's flagship brand, Sofina, did poorly because it targeted the mid-priced segment whereas Kao's Kanebo, which targeted the high end, did well. Targeting the high end also helps Japanese cosmetics firms serve the wealthy Chinese market.[19]

❯ The affordable *bento* lunch box proved to be a hit during the global recession with Japanese consumers tightening their belts and foregoing brand-name luxuries.

Natural Environment

The **natural environment** involves natural resources that are needed as inputs by marketers, or affected by marketing activities. Environmental concerns have grown. In many cities around the world, air and water pollution have reached dangerous levels. World concern continues to mount about the possibilities of global warming.

Natural environment
Natural resources that are needed as inputs by marketers or that are affected by marketing activities.

Marketers should be aware of several trends in the natural environment (see **Figure 3.5**). The first involves growing *shortages of raw materials*. Air pollution chokes many of the world's large cities, and water shortage is already a big problem in some parts of the world. Renewable resources, such as forests and food, also have to be used wisely. Non-renewable resources, such as oil, coal, and various minerals, pose a serious problem. Firms making products that require these scarce resources face large cost increases, even if the materials remain available.

A second environmental trend is *increased pollution*. Industry will almost always damage the quality of the natural environment. Consider the disposal of chemical and nuclear wastes, the quantity of chemical pollutants in the soil and food supply,

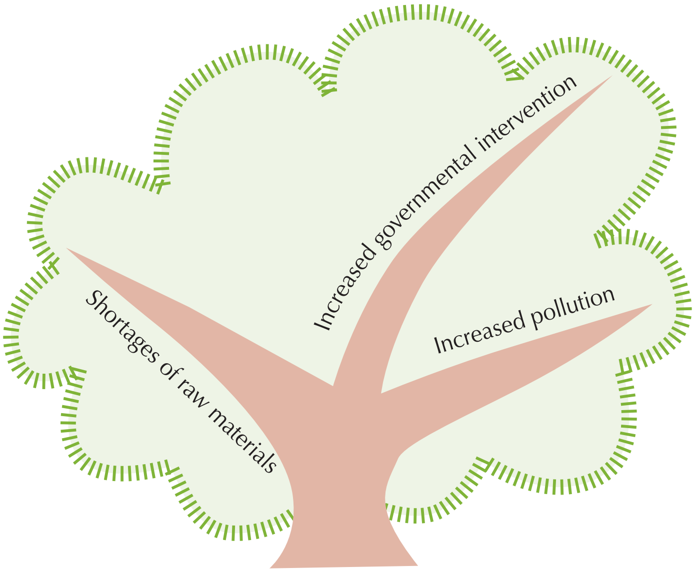


FIGURE 3.5
The natural environment

and the littering of the environment with non-biodegradable bottles, plastics, and other packaging materials.

A third trend is *increased governmental intervention* in natural resource management. The governments of different countries vary in their concern and efforts to promote a clean environment. Some vigorously pursue environmental quality. Others, especially many poorer nations, do little about pollution, largely because they lack the needed funds or political will.

Concern for the natural environment has spawned the green movement. Today, enlightened companies develop strategies and practices that support **environmental sustainability**. They are responding to consumer demands with more environmentally responsible products.

Other companies are developing recyclable or biodegradable packaging, recycled materials and components, better pollution controls, and more energy-efficient operations. For instance, Nike has set carbon dioxide emission reduction targets as part of its joining the World Wildlife Fund Climate Savers program. McDonald's calls its restaurants "laboratories of green experimentation" as the company introduces different environmental initiatives to different local markets worldwide. It measures and manages electrical energy usage at its restaurants and shares best practices across franchises.[20]

In the United States, Toyota launched a Facebook app called Tree Planter, where anyone who adds it to their profile will have a tree planted in one of the forests that have suffered devastating effects from fires. At Singapore's Changi Airport, recycling is encouraged with recycling points placed at various locations within the airport.

As part of its commitment to the World Wildlife Fund Climate Savers program, Nike targets to reduce its emission of carbon dioxide.

Environmental sustainability
Developing strategies and practices that create a world economy that the planet can support indefinitely.

Singapore's Changi Airport embarks on a green movement by having recycling points throughout the airport.

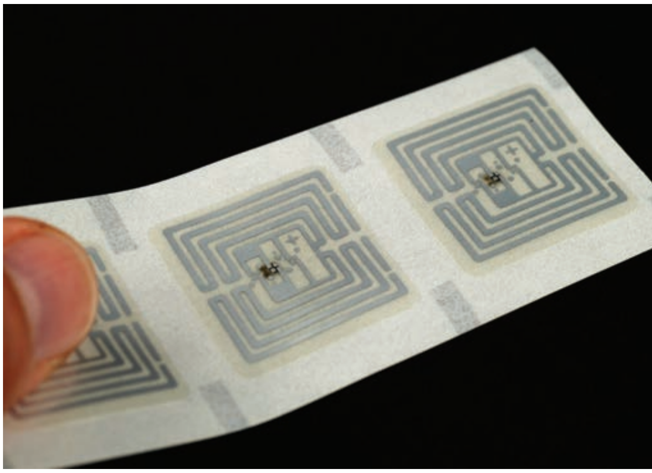
Thus, companies are recognizing the link between a healthy ecology and a healthy economy. They are learning that environmentally responsible actions can also be good for business. Indeed, a new measure consumers use to evaluate businesses is their commitment to environmental sustainability. Essentially, companies should not take away more than what they add to the world's resources and environment.

Technological Environment

The **technological environment** is perhaps the most dramatic force shaping our destiny. Technology has released wonders such as antibiotics, robotic surgery, miniaturized electronics, laptop computers, and the Internet. It also has released horrors such as nuclear missiles, chemical weapons, and assault rifles. It has released mixed blessings such as the automobile, television, and credit cards.

Technological environment
Forces that create new technologies, creating new product and market opportunities.

Our attitude towards technology depends on whether we are more impressed with its wonders or its blunders. For example, what would you think about having tiny little transmitters implanted in the products you buy that would allow tracking products from their point of production through use and disposal? On the one hand, it would provide many advantages to both buyers and sellers. On the other hand, it could be a bit scary. These tiny radio-frequency identification (RFID) transmitters—or "smart chips"—can be embedded in the products you buy. Beyond benefits to consumers, the RFID chips also give producers and retailers an amazing new way to track their products electronically—anywhere in the world, anytime, automatically—from factories, to warehouses, to retail shelves, to recycling centers. Procter & Gamble, at Wal-Mart's request, tagged its products with RFID chips to improve their delivery accuracy, particularly during time-sensitive promotions. Such tagging has helped to streamline its processes. Unlike bar coding, each RFID tag cannot be scanned twice. Hence, there is no picking the wrong case and no miscounting.[21]



RFID tags give producers and retailers a new way to track their products electronically.

Figure 3.6 highlights trends in the technological environment that may affect marketing. New technologies create new markets and opportunities. They replace older technology. Companies that do not keep up will soon find their products outdated and miss new product and market opportunities. Thus, marketers should watch the technological environment closely.

As products and technology become more complex, the public needs to know that these are safe. Thus, government agencies investigate and ban potentially unsafe products. Such regulations have resulted in much higher research costs and in longer time frames between new-product ideas and their introduction. Marketers should be aware of these regulations when applying new technologies and developing new products.

FIGURE 3.6
The technological environment

Political environment
Laws, government agencies, and pressure groups that influence and limit various organizations and individuals in a given society.

Political Environment

Marketing decisions are strongly affected by developments in the political environment. The **political environment** consists of laws, government agencies, and pressure groups that influence or limit various organizations and individuals in a given society (see **Figure 3.7**).

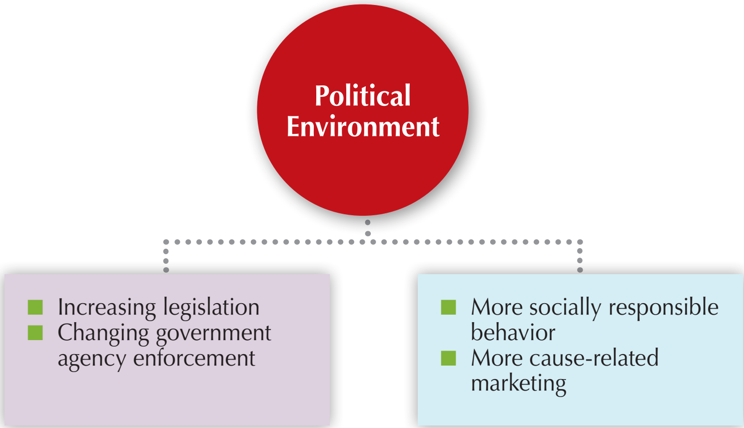


FIGURE 3.7
The political environment

Legislation Regulating Business

Business legislation has three main purposes: to protect companies from unfair competition, to protect consumers from unfair business practices, and to protect the interests of society from unbridled business behavior.

In terms of company protection, regulations on counterfeiting are particularly pertinent for Asian businesses. Asian exporters are expected to face tougher European Union customs controls. Popular counterfeited brands include Christian Dior, Louis Vuitton, Timberland, and Rolex. At Beijing's Silk Market and Bangkok's MBK Market, counterfeit products are easily obtained. Although the production and sale of counterfeits is illegal, the rules against purchasing them are vague. While it is technically illegal to buy counterfeits, it is not a crime if a buyer is not aware or claims not to know the items are fake, or is not buying them for trade or business.

Store names have not been spared either. India has a food store called Hard Rock Café selling Indian and Chinese fast food, while Hong Kong has a Giormani store, touted to appeal to the Millennials.

There are also online copycats. Imitation Web sites of YouTube and Google have appeared in China. Youtubecn.com offers videos from the original YouTube, which is blocked in China. Goojje looks like a combination of Google and Baidu, China's leading search engine. The name is also a play on the words. The second syllable of "Google" sounds like "older brother" in Mandarin, while the second syllable of "Goojje" sounds like "older sister."[22]

The second purpose of government regulation is to *protect consumers* from unfair business practices. Some firms, if left alone, would make shoddy products, invade consumer privacy, tell lies in their advertising, and deceive consumers through their packaging and pricing. Thailand requires food processors selling national brands to also market low-price brands so that

The popularity of counterfeit brands in Asia has proven to be a growing problem for companies. Purses and bags like these are easily available in markets in Asia.

low-income consumers can find economy brands. In Malaysia, there are several scams involving scratch-and-win contests. After scratching a card, consumers are asked to pay processing fees for the gift on the card. This has led to the ban on such contests. However, the ban is only administrative and enforcement has not been effective.[23]

The third purpose of government regulation is to *protect the interests of society* against unrestrained business behavior. Profitable business activity does not always create a better quality of life. Regulation arises to ensure that firms take responsibility for the social costs of their production or products.

❯ Besides counterfeit products, some shops in Asia also take on international names or similar versions of them such as this electronics store in Sri Lanka bearing the same name as U.K.'s grocery retail chain.

Increased Emphasis on Ethics and Socially Responsible Actions

Written regulations cannot possibly cover all potential marketing abuses, and existing laws are often difficult to enforce. However, beyond written laws and regulations, business is also governed by social codes and rules of professional ethics.

Socially Responsible Behavior

Enlightened companies encourage their managers to look beyond what the regulatory system allows and simply "do the right thing." These socially responsible firms actively seek out ways to protect the long-run interests of their consumers and the environment.

The rash of business scandals such as the tainted milk scare in China and increased concerns about the environment, especially after the tsunami and nuclear disasters in Japan, have created fresh interest in the issues of ethics and social responsibility. Almost every aspect of marketing involves such issues. Unfortunately, because these issues usually involve conflicting interests, well-meaning people can honestly disagree about the right course of action in a given situation. Thus, many industrial and professional trade associations have suggested codes of ethics. And more companies are now developing policies, guidelines, and other responses to complex social responsibility issues.

The boom in Internet marketing has created a new set of social and ethical issues. Critics worry most about online privacy issues. There has been an explosion in the amount of personal digital data available. Users themselves supply some of it. They voluntarily place highly private information on social networking sites such as Facebook which can easily be searched for by anyone with a PC.

❯ Certain countries have many imitations of American fast food chains as seen here in ZFC, Iran.

However, much of the information is systematically developed by businesses seeking to learn more about their customers, often without consumers realizing that they are under the microscope. Legitimate businesses plant cookies on consumers' PCs and collect, analyze, and share digital consumer information from every mouse click consumers make at their Web sites. Critics are concerned that companies may now know *too* much, and that some companies might use digital data to take unfair advantage of consumers. Although most companies fully disclose their Internet privacy policies, and most work to use data to benefit their customers, abuses do occur. As a result, consumer advocates and policymakers are taking action to protect consumer privacy.

An example of a company that protects its consumers' privacy is Google. In January 2010, Google announced it would stop censoring search results on

❯ Pichai Sundararajan, or Sundar Pichai is the CEO of Google Inc. Google shocked the business world on 12 January 2010, when it publicly announced it was no longer willing to abide by its 2006 deal with the Chinese government after it was the target of hacker attacks the company attributed to China.

its Chinese site, Google.cn, in response to reportedly highly sophisticated hacking of its Web site and infiltration of Gmail accounts of mainland human-rights activists.[24]

Cause-Related Marketing

To exercise their social responsibility and build more positive images, companies are linking themselves to worthwhile causes.

During the tsunami and nuclear disasters in Japan, companies such as McDonald's and Coca-Cola, as well as many Japanese companies, pledged to provide relief to those affected. Marketing has become a primary form of corporate giving. It lets companies "do well by doing good" by linking purchases of the company's products or services with fundraising for worthwhile causes or charitable organizations. Samsung took to bringing medical aid to Africans as one of its causes. As over 60 percent of the population of sub-Saharn Africa live in rural areas and lack the time and money to travel long distances for medical care, Samsung deploys mobile medical vans that serve as ear, nose, eye, and dental clinics to reach to them. These vans are solar powered and manned by trained medical professionals.

Cause-related marketing has stirred some controversy. Critics worry that cause-related marketing is more a strategy for selling than a strategy for giving—that "cause-related" marketing is really "cause-exploitative" marketing. Thus, companies using cause-related marketing might find themselves walking a fine line between increased sales and an improved image, and facing charges of exploitation.

Cultural Environment

Cultural environment
Institutions and other forces that affect society's basic values, perceptions, preferences, and behaviors.

The **cultural environment** is made up of institutions and other forces that affect a society's basic values, perceptions, preferences, and behaviors (see **Figure 3.8**). People grow up in a particular society that shapes their basic beliefs and values. They absorb a world view that defines their relationships with others. The following cultural characteristics can affect marketing decision making.

Persistence of Cultural Values

People in a given society hold many beliefs and values. Their core beliefs and values have a high degree of persistence. For example, most people believe in working, getting married, giving to charity, and being honest. These beliefs shape more specific attitudes and behaviors found in everyday life. *Core* beliefs and values are passed on from parents to children and are reinforced by schools, churches, businesses, and governments. For instance, Starbucks created a storm when it opened a café in Beijing's Forbidden City. A renewed sensitivity to their heritage led consumers to protest that Starbucks had nothing to do with Chinese tradition and that a tea shop would be more appropriate. Starbucks has since closed this outlet.

Secondary beliefs and values are more open to change. Believing in marriage is a core belief; believing that people should get married early in life is a secondary belief. Marketers have some chance of changing secondary values but little chance

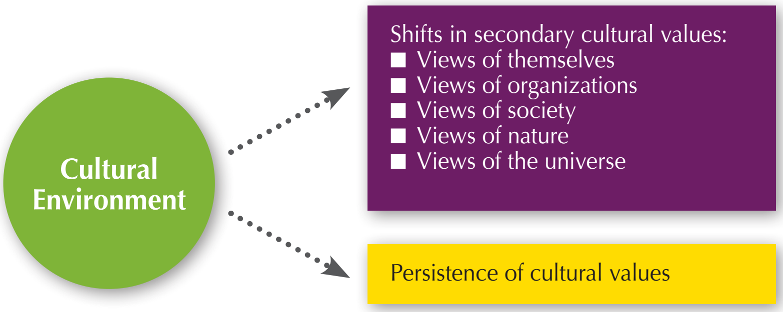


FIGURE 3.8
The cultural environment

of changing core values. For example, family-planning marketers could argue more effectively that people should get married later in life than that they should not get married at all.

Shifts in Secondary Cultural Values

Although core values are fairly persistent, cultural swings do take place. Consider the impact of popular music groups, movie personalities, and other celebrities on young people's hairstyling and clothing norms. Marketers want to predict cultural shifts to spot new opportunities or threats. For example, although Christmas is not a public holiday and few know the story of Christmas in China, more Chinese, especially the young, are celebrating Christmas. Thus, retailers and shopping malls have responded to this enthusiasm. Huayu, a mall popular among locals in western Beijing, put up a 20-meter Christmas tree outside its main entrance to attract shoppers. It also brought in a song-and-dance troupe, and handed out gifts to shoppers on Christmas Eve and Christmas Day. In Shanghai, Bailian Shimao International Plaza mall created a four-storey-high Christmas tree entirely of beer bottles.[25]

The major cultural values of a society are expressed in people's views of themselves and others, as well as in their views of organizations, society, nature, and the universe.

People's Views of Themselves

People vary in their emphasis on serving themselves versus serving others. Some people seek personal pleasure, wanting fun, change, and escape. Others seek self-realization through religion, recreation, or the avid pursuit of careers or other life goals. People use products, brands, and services as a means of self-expression, and they buy products and services that match their views of themselves. Marketers can target their products and services based on such self-views. Consider Levi's in Japan.

Previously a communist country, Christmas is celebrated commercially in China even though Christianity is not one of the country's main religions.

Levi's found that Japanese teenagers were cynical of advertising and may perceive Levi's jeans as just another pair of jeans. Levi's thus launched its Engineered Jeans featuring a Japanese pop star. This was followed by a campaign involving Japanese teenagers expressing their creativity, individuality, and originality. A photocopier, big enough to accommodate a human being, was used. Pop stars and Levi's customers were invited to hop onto the copier and create their own completely original poster ad. Each printout became an instant point-of-sale poster expressing the customer's and Levi's view of themselves as original and unique. The campaign was a success as Levi's brand image as an "individual" rose from 29 to 44 percent over the campaign period.

People's Views of Others

How people view others and hence, how others view you also influences consumption. As a collectivistic culture, Asian consumers tend to be particularly susceptible to such external influences. In Korea, keeping up with the Kims is a serious business.

In Seoul, a child's first birthday is too important to be celebrated at home. Instead, a party at a five-star restaurant is organized with each guest receiving an expensive door gift. The bill for the birthday bash may cost half a year's earnings. The lack of money does not deter many Koreans from trying to keep up with the Kims. It illustrates the Korean obsession for dressing up, looking good, and giving the impression of being well-off. There is also the obsession with "saving face." Businesses have exploited this obsession with stores selling secondhand luxury goods and renting out expensive gowns and luxury bags. For those who may fret over a small turnout at a social occasion, there are companies that rent out "friends" who show up and sit at tables. At one such wedding dinner, the groom's father hired 20 "guests" to avert the humiliation of a low turnout.[26]

› Asian consumers tend to be particularly susceptible to external influences. In Korea, keeping up with the Kims is a serious business, and a child's birthday, especially their first, is a major celebration.

People's Views of Organizations

People vary in their attitudes toward corporations, government agencies, trade unions, universities, and other organizations. By and large, people are willing to work for major organizations and expect them, in turn, to carry out society's work. Many people today see work not as a source of satisfaction but as a means to earn money to enjoy their non-work hours. This trend suggests that organizations need to find new ways to win consumer and employee confidence.

People's Views of Society

People vary in their attitudes toward their society; patriots defend it, reformers want to change it, malcontents want to leave it. People's orientation to their society influences their consumption patterns and attitudes toward the marketplace.

For instance, the Chinese are proud of their country and want to show the world that they are in every way a modern society. In every industry of importance, China's leaders expect its companies to become among the world's largest and most successful. Such national pride has driven the Chinese to be positive about their country's development and have confidence in their future.[27]

People's Views of Nature

People vary in their attitudes toward the natural world. Some feel ruled by it, others feel in harmony with it, and still others seek to master it. A long-term trend has been people's growing mastery over nature through technology and the belief that nature is bountiful. More recently, however, people have recognized that nature is finite and fragile, and that it can be destroyed or spoiled by human activities. Businesses have responded by offering more products and services catering to such interests. For example, food producers have found fast-growing markets for natural and organic foods. In Asia where there are frequent food scares—from contaminated baby foods to pesticides in apples—some Chinese have turned to organically grown food.

› **People's views of nature** – Organically grown products including rice cakes, tea, chili, fruit, vegetables, and meat are slowly becoming popular in Asia.

People's Views of the Universe

Finally, people vary in their beliefs about the origin of the universe and their place in it. Although most Asians practice religion, religious conviction and practice have been dropping off gradually through the years. There is also a renewed interest in spirituality, perhaps as part of a broader search for a new inner purpose. People have been moving away from materialism and dog-eat-dog ambition to seek more permanent values—family, community, earth, faith—and a more certain grasp of right and wrong.

Responding to the Marketing Environment

Someone once observed, "There are three kinds of companies: those who make things happen, those who watch things happen, and those who wonder what happened."[28] Many companies view the marketing environment as an uncontrollable element to which they must react and adapt. They passively accept the marketing environment and do not try to change it. They analyze the environmental forces and design strategies that will help the company avoid the threats and take advantage of the opportunities the environment provides.

Other companies take a *proactive* stance toward the marketing environment. Rather than simply watching and reacting, these firms take aggressive actions to affect the publics and forces in their marketing environment. Such companies hire lobbyists to influence legislation affecting their industries and stage media events to gain favorable press coverage. They run advertorials (ads expressing editorial points of view) to shape public opinion. They press lawsuits and file complaints with regulators to keep competitors in line, and they form contractual agreements to better control their distribution channels.

❯ Smart marketing managers take a proactive rather than reactive approach to the marketing environment.

By taking action, companies can often overcome seemingly uncontrollable environmental events. But marketing management cannot always control environmental forces. In many cases, it must settle for simply watching and reacting to the environment. For example, a company would have little success trying to influence geographic population shifts, the economic environment, or major cultural values. But whenever possible, smart marketing managers will take a *proactive* rather than *reactive* approach to the marketing environment.

Reviewing Objectives and Key Terms

In this chapter and the next two chapters, you'll examine the environments of marketing and how companies analyze these environments to better understand the marketplace and consumers. Companies must constantly watch and manage the *marketing environment* in order to seek opportunities and ward off threats. The marketing environment consists of all the actors and forces influencing the company's ability to transact business effectively with its target market.

OBJECTIVE 1 Describe the environmental forces that affect the company's ability to serve its customers. (pp. 73–75)

The company's *microenvironment* consists of other actors close to the company that combine to form the company's value delivery network or that affect its ability to serve its customers. It includes the company's *internal environment*—its several departments and management levels—as it influences marketing decision making. *Marketing-channel firms*—suppliers and marketing intermediaries, including resellers, physical distribution firms, marketing services agencies, and financial intermediaries—cooperate to create customer value. Five types of customer *markets* include consumer, business, reseller, government, and international markets. *Competitors* vie with the company in an effort to serve customers better. Finally, various *publics* have an actual or potential interest in or impact on the company's ability to meet its objectives.

The *macroenvironment* consists of larger societal forces that affect the entire microenvironment. The six forces making up the company's macroenvironment include demographic, economic, natural, technological, political, and cultural forces. These forces shape opportunities and pose threats to the company.

OBJECTIVE 2 Explain how changes in the demographic and economic environments affect marketing decisions. (pp. 75–83)

Demography is the study of the characteristics of human populations. Today's *demographic environment* shows a changing age structure, shifting family profiles, geographic population shifts, a better-educated and more white-collar population, and increasing diversity. The *economic environment* consists of factors that affect buying power and patterns. The economic environment is characterized by more consumer concern for value and shifting consumer spending patterns. Today's squeezed consumers are seeking greater value—just the right combination of good quality and service at a fair price. The distribution of income is also shifting. The rich have grown richer, the middle class has shrunk, and the poor have remained poor, leading to a two-tiered market. Many companies now tailor their marketing offers to two different markets—the affluent and the less affluent.

OBJECTIVE 3 Identify the major trends in the firm's natural and technological environments. (pp. 83–85)

The *natural environment* shows three major trends: shortages of certain raw materials, higher pollution levels, and more government intervention in natural resource management. Environmental concerns create marketing opportunities for alert companies. The *technological environment* creates both opportunities and challenges. Companies that fail to keep up with technological change will miss out on new product and marketing opportunities.

OBJECTIVE 4 Explain the key changes in the political and cultural environments. (pp. 86–91)

The *political environment* consists of laws, agencies, and groups that influence or limit marketing actions. The political environment has undergone three changes that affect marketing worldwide: increasing legislation regulating business, strong government agency enforcement, and greater emphasis on ethics and socially responsible actions. The *cultural environment* is made up of institutions and forces that affect a society's values, perceptions, preferences, and behaviors. The environment shows trends toward digital "cocooning," a lessening trust of institutions, increasing patriotism, greater appreciation for nature, a new spiritualism, and the search for more meaningful and enduring values.

OBJECTIVE 5 Discuss how companies can react to the marketing environment. (pp. 91–92)

Companies can passively accept the marketing environment as an uncontrollable element to which they must adapt, avoiding threats and taking advantage of opportunities as they arise. Or they can take a *proactive* stance, working to change the environment rather than simply reacting to it. Whenever possible, companies should try to be proactive rather than reactive.

Key Terms

OBJECTIVE 1
Marketing environment (p 73)
Microenvironment (p 73)
Macroenvironment (p 73)
Marketing intermediaries (p 74)
Public (p 75)

OBJECTIVE 2
Demography (p 76)
Baby boomers (p 77)
Generation X (p 78)
Millennials (or Generation Y) (p 78)
Economic environment (p 79)

OBJECTIVE 3
Natural environment (p 83)
Environmental sustainability (p 84)
Technological environment (p 85)

OBJECTIVE 4
Political environment (p 86)
Cultural environment (p 88)

Discussing the Concepts

1. Name and describe the elements of a company's microenvironment and give an example illustrating why each is important.
2. List some of the demographic trends of interest to marketers in your country and discuss whether these trends pose opportunities or threats for marketers.
3. Discuss current trends in the economic environment of which marketers must be aware of and provide examples of companies' responses to each trend.
4. Terrorism is increasing worldwide. Attacks in India and Indonesia have affected foreign (notably, American) tourists and institutions (such as hotels). How should marketers, particularly those associated with nations like the U.S., respond to terrorism?
5. Compare and contrast core beliefs/values and secondary beliefs/values. Provide an example of each and discuss the potential impact marketers have on each.
6. How should marketers respond to the changing environment?

Applying the Concepts

1. In 2010, Taiwan announced that it aims to be one of the first countries worldwide to curb obesity by banning junk food advertisements on children's TV programs. About 30 percent of Taiwanese children are overweight. The government is drafting a Bill that will introduce the world's first tax on food considered unhealthy such as sugary drinks, candy, cakes, fast food, and alcohol. If you were McDonald's, what steps should you take now to meet this challenge?
2. In response to the depletion of non-renewable resources, Asian agri-businesses like Wilmar have begun producing biofuels from palm oil and the like. However, some of these firms have been criticized for degrading the environment by using slash-and-burn techniques in clearing land for their plantations. Discuss how forces in the natural environment have shaped these agri-businesses and how they can respond going forward.
3. British cultural influence and, in particular, the English language, can be observed in several Asia-Pacific nations including Hong Kong, India, Pakistan, Singapore, Malaysia, Australia, and New Zealand. How might English, as the international business

language, aid or impair international businesses in the region?

Focus on Technology

People have been using Twitter's social media platform to tweet short bursts of information in 140 characters or less since 2006, and now average 500 million tweets a day. The full stream of tweets is referred to as Twitter's fire hose. Data from the fire hose is analyzed and the information gleaned from taht analysis is sold to other companies. Twitter bought over Gnip, the world's largest social data provider and one of the few companies that had access to the fire hose. Gnip also mines public data from Facebook, Google+, Tumblr, and other social media platforms. Analyzing social data has become a big business because companies pay to learn consumers' sentiments toward them. Twitter earned $2.22 billion in 2015, up from $1.4 billion in 2014. Twitter and other social media platforms and data analytic companies are doing very well indeed.

1. Discuss the value of social data for marketers (AACSB: Communication; Reflective Thinking)
2. A "dark social channel" refers to a private channel or a channel difficult to match with other digital channels. An example of a dark channel is email. However, Google routinely mines its roughly half a billion Gmail users' emails. Research how Google scans email data and the fallout from those actions. (AACSB: Communication; Use of IT; Reflective Thinking)

Focus on Ethics

You've probably heard of some specific heart procedures, such as angioplasty and stents, which are routinely performed on adults. But such heart procedures, devices, and their related medications are not available for infants and children, despite the fact that almost 40,000 children are born in the U.S. each year with heart defects that often require repair. This is a life-or-death situation for many young patients, yet doctors must improvise by using devices designed and tested on adults. For instance, doctors use an adult kidney balloon in an infant's heart because it is the appropriate size for a newborn's aortic valve. However, this device has not been approved for the procedure. Why are specific devices and medicines developed for the multibillion-dollar cardiovascular market not also designed for children's health care? It's a matter of economics; this segment of young consumers is just too small. One leading cardiologist attributed the discrepancy to a "profitability gap" between the children's market and the much more profitable adult market for treating heart disease. Although this might make good economic sense for companies, it is little comfort to the parents of these small patients.

1. Discuss the environmental forces acting on medical device and pharmaceutical companies that are preventing them from meeting the needs of the infant and child market segment. Is it wrong for these companies to not address the needs of this segment? (AACSB: Communication; Reflective Thinking; Ethical Reasoning)
2. Suggest some solutions to this problem. (AACSB: Communication; Reflective Thinking)

Marketing & the Economy

Netflix

Although the recent economic downturn has taken its toll on the retail industry as a whole, the stars are still shining on Netflix. Business has been so good that Netflix met its most recent new subscriber goal weeks before the deadline. In early 2009, Netflix surpassed 10 million subscribers—a remarkable feat. Eighteen months later, that number had grown by 50 percent to 15 million subscribers. Clearly, all these new customers are good for the company's financials. Customers are signing up for the same reasons they always have—the convenience of renting movies without leaving home, a selection of more than 100,000 DVD titles, and low monthly fees. But the company's current good fortunes may also be the result of consumers looking for less expensive means of entertainment. They may even be the result of consumers escaping the gloom of financial losses and economic bad news. Whatever the case, Netflix appears to have a product that thrives in bad times as well as in good.

1. Visit www.netflix.com. After browsing the Web site and becoming more familiar with the company's offerings, assess the macroenvironmental trends that have led to Netflix's success in recent years.
2. Which trends do you think have contributed most to Netflix's current growth following recent economic woes?

Marketing by the Numbers

Many marketing decisions boil down to numbers. An important question is this: What is the market sales potential in a given segment? If the sales potential in a market is not large enough to warrant pursuing that market, then companies will not offer products and services to that market, even though a need may exist. Consider the market segment of infants and children discussed above in Focus on Ethics. Certainly there is a need for medical products to save children's lives. Still, companies are not pursuing this market.

1. Using the chain ratio method described in Appendix 2, estimate the market sales potential for heart catheterization products to meet the needs of the infant and child segment. Assume that of the 40,000 children with heart defects each year, 60 percent will benefit from these types of products and only 50 percent of their families have the financial resources to obtain such treatment. Also assume the average price for a device is $1,000. (AACSB: Communication; Analytical Reasoning)
2. Research the medical devices market and compare the market potential you estimated to the sales of various devices. Are companies justified in not pursuing the infant and child segment? (AACSB: Communication; Reflective Thinking)

Video Case

TOMS Shoes

"Get involved: Changing a life begins with a single step." This sounds like a mandate from a non-profit volunteer organization. But in fact, this is the motto of a for-profit shoe company located in Santa Monica, California. In 2006, Tom Mycoskie founded TOMS Shoes because he wanted to do something different. He wanted to run a company that would make a profit while at the same time helping the needy of the world.

Specifically, for every pair of shoes that TOMS sells, it gives a pair of shoes to a needy child somewhere in the world. So far, the company has given away tens of thousands of pairs of shoes and is on track to give away hundreds of thousands. Can TOMS succeed and thrive based on this idealistic concept? That all depends on how TOMS executes its strategy within the constantly changing marketing environment.

After viewing the video featuring TOMS Shoes, answer the following questions about the marketing environment:

1. What trends in the marketing environment have contributed to the success of TOMS Shoes?
2. Did TOMS first scan the marketing environment in creating its strategy, or did it create its strategy and fit the strategy to the environment? Does this matter?
3. Is TOMS' strategy more about serving needy children or about creating value for customers? Explain.

Company Case

Sony: Battling the Marketing Environment's "Perfect Storm"

With all the hype these days about companies like Apple, Google, Amazon, and Samsung, it's hard to remember that companies like Sony once ruled. In fact, not all that long ago, Sony was a high-tech rock star, a veritable merchant of cool. Not only was it the world's largest consumer electronics company, its history of innovative products—such as Trinitron TVs, Walkman portable music players, Handycam video recorders, and PlayStation video game consoles—had revolutionized entire industries. Sony's innovations drove pop culture, earned the adoration of the masses, and made money for the company. The Sony brand was revered as a symbol of innovation, style, and high quality.

Today, however, Sony is more a relic than a rock star, lost in the shadows of today's high-fliers. While Sony is still an enormous company with extensive global reach, Samsung overtook the former market leader as the world's largest consumer electronics company a decade ago and has been pulling away ever since. Likewise, Apple has pounded Sony with one new product after another. "When I was young, I had to have a Sony product," summarizes one analyst, "but for the younger generation today it's Apple." All of this has turned Sony's "Make. Believe." brand promise into one that is more "make-believe."

Sony's declining popularity among consumers is reflected in its financial situation. For the most recent year, Samsung and Apple each tallied revenues exceeding $170 billion—more than double Sony's top line. Samsung's profits have surged in recent years while Sony's losses reached catastrophic levels. And whereas stock prices and brand values have skyrocketed for competitors, Sony's have reached new lows. Adding insult to injury, Moody's Investors Service recently cut Sony's credit rating to "junk" status.

How did Sony fall so hard so fast? The answer is a complex one. Sony never lost the capabilities that made it great. In fact, throughout the past decade, Sony was poised to sweep the markets for MP3 players, smartphones, online digital stores, and many other hit products that other companies have marketed successfully. But Sony was caught in the middle of a perfect storm of environmental forces that inhibited its growth and success. Some factors were beyond Sony's control. However, at the core of it all, Sony took its eye off the market, losing sight of the future by failing to adapt to important changes occurring all around it.

Hit on all Sides

For starters, Sony fell behind in technology. Sony built its once mighty empire based on the innovative engineering and design of standalone electronics—TVs, CD players, and video game consoles. However, as Internet and digital technologies surged, creating a more connected and mobile world, standalone hardware was rapidly replaced by new connecting technologies, media, and content. As the world of consumer entertainment gave way to digital downloads and shared content accessed through PCs, iPods, smartphones, tablets, and Internet-ready TVs, Sony was late to adapt.

Behaving as though its market leadership could never be challenged an arrogant Sony clung to successful old technologies rather than embracing new ones. For example, prior to the launch of Apple's first iPod in 2001, Sony had for three years been selling devices that would download and play digital music files. Sony had everything it needed to create an iPod/iTunes-type world, including its own recording company. But it passed up that idea in favor of continued emphasis on its then-highly successful CD business. "[Apple's] Steve Jobs figured it out, we figured it out, we didn't execute," said Sir Howard Stringer, former Sony CEO. "The music guys didn't want to see the CD go away."

Similarly, as the world's largest TV producer, Sony clung to its cherished Trinitron cathode-ray-tube technology. Meanwhile, Samsung, LG, and other competitors were moving rapidly ahead with flat screens. Sony eventually responded. But today, both Samsung and LG sell more TVs than Sony. Sony's TV business, once its main profit center, has lost nearly $8 billion over the last 10 years. Recently, in an effort to get back on its feet, Sony spun off its TV division into a standalone unit. But it faces a daunting uphill battle in a competitive landscape that is far different from the one in Sony's heyday. Not only does Sony continue to lose market share to Samsung and LG, but Chinese TV makers such as Haier, Hisense, and TCL are producing cutting edge flat panel offerings with a cost advantage that significantly undercuts Sony.

It was a similar story for Sony's PlayStation consoles, once the undisputed market leader and accounting for one-third of Sony's profits. Sony yawned when Nintendo introduced its innovative motion-sensing Nintendo Wii, dismissing it as a "niche game device." Instead, Sony engineers loaded up the PS3 with pricey technology that produced a loss of $300 per unit sold. Wii became a smash hit and the best-selling game console; the PS3 lost billions for Sony, dropping it from first place to third.

Even as a money loser, the PlayStation system, with its elegant blending of hardware and software, had all the right ingredients to make Sony a leader in the new world of digital entertainment distribution and social networking. Executives inside Sony even recognized the PlayStation platform as the "epitome of convergence," with the potential to create "a fusion of computers and entertainment." In other words, Sony could have had a strong competitive response to Apple's iTunes. But that vision never materialized, and Sony has lagged in the burgeoning business of connecting people to digital entertainment.

There are plenty of other examples of Sony's failure to capitalize on market trends despite the fact that it had the products to do so. Consider the Sony MYLO (or MY Life Online), a clever device released a year before the first iPhone that had the essence of everything that would eventually define the smartphone—a touch screen, Skype, a built-in camera, even apps. Or how about the long line of Sony Reader devices, the first of which was released a year before Amazon took the world by storm with its first Kindle.

The Turnaround

As Sony awoke to the reality of flattening revenues and plummeting profits, efforts were made to turn things around. In 2005, then- CEO Stringer moved in to put Sony back on track. To his credit, Stringer made a credible effort to reignite the company, developing a turnaround plan aimed at changing the Sony mind-set and moving the company into the new connected and mobile digital age. Stringer's efforts were slow to take root, meeting resistance by Sony's hardware-worshipping culture. "Whenever I mentioned content," he says, "people would roll their eyes because, 'This is an electronics company, and content is secondary.'" But even with its rigid structure and inflexible culture working against it, Sony's strengths kept it in the game. In fact, just a few years into Stringer's tenure, the once great consumer electronics giant began to show signs of life, as Sony's profits jumped 200 percent to $3.3 billion on rising revenue.

But if Sony didn't have enough challenges, this uptick occurred just as the Great Recession hit. A year later, Sony was right back where it started with a billion dollar loss. Stringer was quick to point out that if not for the global financial collapse and the yen trading near a post-war high, it would have been comfortably profitable.

After a few more years of negative profits, 2011 was to be Sony's comeback year. Its best batch of new products in over a decade was heading for store shelves, including a portable PlayStation player, a compact 24-megapixel camera, one of the most advanced smartphones on the market, a personal three-dimensional video viewer, and the company's first tablets. Perhaps more important, the company was ready to launch the Sony Entertainment Network—an iTunes-like global network that would finally combine Sony's strengths in movies, music, and video games to all its televisions, PCs, phones, and tablets. Analysts forecasted a profit of $2 billion.

But on March 11, 2011, Stringer received a text message at 4:30 a.m., after having just arrived in New York City. Eastern Japan had been devastated by an earthquake and tsunami. Nobody at Sony was hurt. In fact, Sony's employees dove into rescue efforts, fashioning rescue boats from foam shipping containers to assist in saving victims and ferrying supplies. But in the aftermath of the destruction, Sony shuttered 10 plants, disrupting the flow of Blu-ray discs, batteries, and many other Sony items.

In the wake of the extreme natural disasters, Sony's miseries had only just begun. A month later, a hacking attack invaded the company's Internet entertainment services. In what was determined to be the second-largest online data breach in U.S. history, Sony was forced to shut down the PlayStation Network. A short four months later, fires set by rioters in London destroyed a Sony warehouse and an estimated 25 million CDs and DVDs, gutting the inventory of 150 independent labels. And to round out the year, floods in Thailand shut down component plants, disrupting production and distribution of Sony cameras.

Sony's 2011 comeback year turned out to be big all right, but for all the wrong reasons. The projected $2 billion profit ended up as a $3.1 billion loss, marking a three-year losing streak. As Stringer prepared to fade away into retirement, Kazuo Hirai, Sony's emerging CEO, began speaking publicly of Sony's "sense of crisis." Indeed, Sony entered the record books the following year with a net loss in excess of $6 billion—its biggest ever.

Assessing the Damage

So in the end, just what is it that has caused Sony's fall from grace? Was it an addiction to hardware, an uncompetitive cost structure, the global financial crisis, natural disasters, computer hacking, or riots? In retrospect, all these elements of the marketing environment combined to deliver blow after blow. Sony's encounter with a perfect storm of environmental forces illustrates the havoc such forces can wreak—whether unforeseeable natural and economic events or more predictable turns in technology.

Throughout Sony's turbulent existence over the past decade, a few things remain clear. Sony is a company with a long history and strong legacy that refuses to give up. Even now, Hirai and others at Sony are firmly resolved to save the company. And with engineering and design at the core, they still have all the ingredients needed to become a total entertainment provider in today's market. Sony is a gaming console maker, a TV producer, a mobile company, a home device company, a movie studio, and a major recorded-music label. With renewed efforts toward cost-cutting and breaking down divisional walls, Sony's portfolio of new state-of-the-art products and the unifying umbrella of the Sony Entertainment Network show promise. Now, if Sony can just get the economy and Mother Nature to cooperate.

Discussion Questions

1. What microenvironmental factors have affected Sony's performance since 2000?
2. What macroenvironmental factors have affected Sony's performance during that period?
3. What stands in the way of Sony's success today?
4. Given Sony's current situation, what recommendations would you make to Hirai for the future of the company?

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Objective Outline

OBJECTIVE 1
Explain the importance of information in gaining insights about the marketplace and customers.
Marketing Information and Customer Insights (103–105)

OBJECTIVE 2
Define the marketing information system and discuss its components.
Assessing Marketing Information Needs (105–106)
Developing Marketing Information (106–108)

OBJECTIVE 3
Outline the steps in the marketing research process.
Marketing Research (109–122)

OBJECTIVE 4
Explain how companies analyze and use marketing information.
Analyzing and Using Marketing Information (123–127)

OBJECTIVE 5
Discuss the special issues some marketing researchers face, including public policy and ethics issues.
Other Marketing Information Considerations (127–130)

Chapter 4

Managing Marketing Information

Previewing the Concepts

In this chapter, we'll discuss how marketers go about understanding the marketplace and consumers. We'll look at how companies develop and manage information about important marketplace elements—about customers, competitors, products, and marketing programs. To succeed in today's marketplace, companies must know how to manage mountains of marketing information effectively.

Let's start with a story about marketing research and customer insights at Procter & Gamble, one of the world's largest and most respected marketing companies. P&G makes and markets a who's who list of consumer megabrands, including Pampers, Crest, Tide, Gillette, Ivory, Febreze, Olay, Cover Girl, Pantene, Duracell, and dozens more. The company's stated purpose is to provide products that "improve the lives of the world's consumers." P&G's brands create value for consumers by solving their problems. But to build meaningful relationships with customers, you first have to understand them and how they connect with your brand. That's where marketing research comes in.

P&G: Building Meaningful Relationships Through Consumer Insights

How does Procter & Gamble (P&G)—manufacturer of leading brands like Tide, Crest, Pantene, SKII, and Gillette—stay on top of its game? They understand the consumers and their market. Their commitment to marketing on the basis of consumer insight and feedback is reflected in the company's policies and principles in that they focus on developing a superior understanding of consumers and their needs by building a close and mutually productive relationship with them and its suppliers. To get the best product- and market-related information, P&G interacts with more than 5 million consumers annually across 100 countries, conducts over 20,000 research studies every year, and invests around $400 million in consumer insights.

P&G has a market research function called Consumer and Market Knowledge (CMK). The goal is to incorporate consumer insights into decision making processes across all levels, and make them applicable for P&G businesses worldwide. In partnership with the line businesses, CMKs develop research methods, apply their core research competencies for expert application and cross-business learning, and share their services and infrastructure. The company employs certain traditional research methods like brand tracking. Brand tracking refers to companies going into the market and recruiting a representative sample of consumers against which they measure the current strength of the brand. At the same time P&G works towards developing leading edge research approaches—experiential consumer contacts, proprietary modeling methods, and scenario-planning or knowledge synthesis events. Findings from such research influence not only day-to-day operational choices such as what product formulations to launch, but also long-term plans such as what corporate acquisitions to make for a complete product portfolio and to highlight the importance of insight into the marketplace.

P&G, one of the world's most respected marketing companies, knows that to build meaningful relationships with customers, you must first understand them and how they connect with your brand. That's the role of marketing research.

P&G understood the penchant Chinese parents have for their children to do well in their studies. Hence, they linked the importance of sleeping well with education excellence.

Apart from these tools, P&G also undertakes qualitative research to help the company develop new product ideas and market plans. With detailed discussions and surveys about the different features of the variety of products offered by the company, engaging customers has resulted in a personal connect. Using focus groups, conducting in-home visits and in-store interviews, and integrating quantitative tools—online concept tests and surveys to get customer feedback—has helped P&G to not only save on time and money, but increase awareness about their products and brands.

Here is an example of how P&G's research influenced its marketing decisions—Pampers in China and India.

When P&G first launched Pampers in China, its challenge was not to convince parents that they were superior to another brand of disposable diapers. Its challenge was to convince them that they needed diapers. The cultural norm then was for babies to wear cloth diapers, if at all. In china, toilet training begins as early as six months. Children wear *kaidangku*—pants with an opening that let children squat and relieve themselves.

Initially, P&G did not understand the China market. It wrongly assumed that Chinese parents would buy its diapers if they were cheap enough. Hence, it introduced a lower quality product. Far from being comfortable, the diapers felt plasticky, not soft. It took a while before P&G realized that softness is just as important to mothers in developing markets as it is in developed markets. It then revamped its diapers, making them softer with a less plastic feel, and increased the absorption capability. Each diaper was sold at 10 cents, less than half the cost of a Pampers diaper in the United States.

Still, P&G had to overcome the cultural barrier of having mainland Chinese babies wear diapers. It conducted two exhaustive experiments with the Beijing Children's Hospital's Sleep Research Center, involving 6,800 home visits and more than 1,000 babies in eight Chinese cities. Its research findings revealed that compared to cloth diapers, babies who slept in Pampers disposable diapers fell asleep 30 percent faster and slept an extra 30 minutes every night versus those using cloth diapers. By this time, P&G understood that Chinese parents were obsessed with academic achievement. P&G used this understanding to its advantage by linking extra sleep to improved cognitive development.

The scientific results were used to drive P&G's "Golden Sleep" campaign. It included mass carnivals and in-store campaigns in China's urban areas. A viral campaign on the Pampers Chinese web site asked parents to upload pictures of their sleeping babies to reinforce the campaign message of a good sleep. Some 200,000 photos were received. P&G used them to create a 660 square meter-photomontage at a retail store in Shanghai. The campaign also featured the scientific findings such as "Baby Sleeps with 50% Less Disruption" and "Baby Falls Asleep 30% Faster." The campaign was lauded as one that broke through the clutter without appearing paternalistic. The scientific backing and the idea that Pampers can help give children an edge distinguished Pampers from its competition.

According to India Diaper Market Outlook, 2021, the country's urban diaper market grew with a compound annual growth rate of 19.99 percent in 2014. In India, P&G also successfully wooed mothers with its marketing insights. Based on data collected and shared by organizations like American global information and measurement company Nielsen which looked into and identifying factors that help babies develop, P&G started developing products catered to specific needs. This product development was also a result of the company's research into the Indian market that showed that the country has one of the largest numbers of babies, which offers P&G a huge market potential. The company invested in constant research and innovation in India to understand the needs of babies, and their mothers, at various stages of development. As a result of their research and after speaking to consumers and retailers in the market with the most number of babies, Pampers Active Baby has been recognized as one of the most suitable diapers by mothers in India. This particular diaper was modified to suit the Indian climate with a guarantee of complete dryness and an uninterrupted sleep cycle of 12 hours. To allow frequent checks by mothers, Pampers also introduced an easily re-sealable fastening system in pace of tapes which wear out more quickly.

In 2015 Al Rajwani, the CEO of P&G India, said that as a part of their top down strategy, the company's innovations in the country include Gillette Flexball (a rotatable razor) and Pamper Premium, a product that was launched in October 2015. Regarding their product approach, Rajwani said, "the decision to cut prices was to explode the category. We are lowering barriers to purchasing our brands through customer feedback." Rajwani said their consumer insight indicated this was the right strategy as it encouraged consumers to consider purchasing bigger bottles, which they feel will ultimately lead to a better product experience and usage. P&G will continue reviewing and analyzing this value equation so that consumers will benefit while the company will be able to put only a small premium on the product for a trade up. To help look into the consumer market and operations in South Asia, P&G is also looking to build a strategic Planning Centre in India, which would employ around 50 skilled employees and have a provision for 100.[1]

As the P&G Pampers example highlights, good products and marketing programs begin with good customer information. Companies also need an abundance of information on competitors, resellers, and other actors and marketplace forces.

Marketing Information and Customer Insights

To create value for customers and build meaningful relationships with them, marketers must first gain fresh, deep insights into what customers need and want. Companies use such customer insights to develop competitive advantage. "In today's hypercompetitive world," states a marketing expert, "the race for competitive advantage is really a race for customer and market insights." Such insights come from good marketing information.[2]

Apple – Consider Apple's phenomenally successful eco-system for entertainment and lifestyle. The iPod wasn't the first digital music player, but Apple was the first to get it right. Apple's research uncovered a key insight about how people want to consume digital music—they want to take all their music with them, but they want personal music players to be unobtrusive. This insight led to two key design goals: make it as small as a deck of cards and build it to hold 1,000 songs. Add a dash of Apple's design and usability magic to this insight, and you have the recipe for a blockbuster. This was followed by other blockbusters such as the iPhone and iPad. Apple has also launched iCloud, a service that allows users to store data such as music files and automatically sync between multiple devices such as iPhones, iPods, iPads, and personal computers. The Apple Watch and Apple Pay complete the eco-system that Apple has successfully established.

› With key customer insights, innovative designs, and usability, Apple has successfully launched new products that changed consumers' way of entertaining and living.

Although customer and market insights are important for building customer value and relationships, they can be very difficult to obtain. Customer needs and buying motives are often anything but obvious—consumers themselves usually can't tell you exactly what they need and why they buy. To gain good customer insights, marketers must effectively manage marketing information from a wide range of sources.

Today's marketers have ready access to plenty of marketing information. With the explosion of information technologies, companies can generate information in great quantities. Moreover, consumers themselves are generating tons of "bottom-up" marketing information.

Consumers can communicate with an organization through letters, the call center, email, text messaging, instant messaging and, indirectly, blogging, Facebook, Twitter, and so on. Each one has contributed to individuals volunteering information to others and to organizations. Organizations that can elicit and use such volunteered information can gain much richer, more timely customer insights at lower cost.[3]

Marketing Information and Today's 'Big Data'

With the recent explosion of information technologies, companies can now generate and find marketing information in great quantities. Through email, text messaging, blogging, and social media, consumers volunteer a tidal wave of bottom-up information to companies and each other.

Big data
The huge and complex data sets generated by today's sophisticated information generation, collection, storage, and analysis technologies.

Customer insights
Fresh understandings of customers and the marketplace derived from marketing information that become the basis for creating customer value and relationships.

Far from lacking information, most marketing managers are overloaded with data and are often overwhelmed by it. This problem is summed up in the concept of **big data**. The term *big data* refers to huge and complex data sets generated by today's sophisticated information generation, collection, storage, and analysis technologies. Every day, the world generates 2.5 quintillion bytes of new data—about a trillion gigabytes of information each year. Put in perspective, that's enough data to fill 2.47 trillion CD-ROMs, a stack tall enough to go to the moon and back, almost four times.

Big data presents marketers with big opportunities and challenges. Companies that effectively tap this glut of data can gain rich, timely, customer insights. However, accessing and sifting through so much data is a daunting task. For example, when a company such as Pepsi monitors online discussions about its brands by searching keywords in tweets, blogs, posts, and other sources, its servers take in a stunning 6 million public conversations a day, more than 2 billion a year.[4] That's far more information than any manager can digest.

Thus, marketers don't need *more* information; they need *better* information. And they need to make better *use* of the information they already have.

The real value of marketing research and marketing information lies in how it is used—in the **customer insights** that it provides. Based on such thinking, many companies are now restructuring their marketing research and information functions. They are creating "customer insights teams," headed by a senior marketing executive with representatives from all of the firm's functional areas. For example, Coca-Cola's vice president of marketing strategy and insights heads up to a team of 25 strategists who develop strategy based on marketing research insights.

Customer insights groups collect customer and market information from a wide variety of sources, ranging from traditional marketing research studies to mingling with and observing consumers to monitoring consumer online conversations about the company and

› In this oh-so-overwhelming information age, it's all too easy to be buried, burdened, and burned out by data overload.

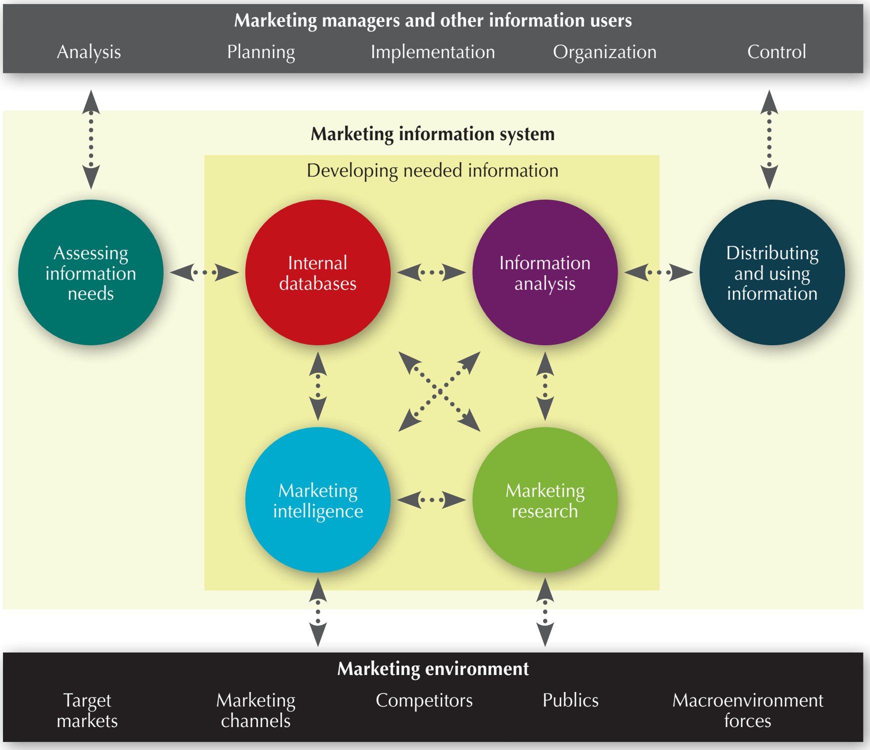


FIGURE 4.1
The marketing information system

its products. Then they *use* this information to develop important customer insights from which the company can create more value for its customers.

Thus, companies must design effective marketing information systems that give managers the right information, in the right form, at the right time, and help them to use this information to create customer value and stronger customer relationships.

A **marketing information system (MIS)** consists of people, equipment, and procedures to gather, sort, analyze, evaluate, and distribute needed, timely, and accurate information to marketing decision makers. **Figure 4.1** shows that the MIS begins and ends with information users—marketing managers, internal and external partners, and others who need marketing information.

- It interacts with information users to *assess information needs*.
- It *develops needed information* from internal company databases, marketing intelligence activities, and marketing research.
- It helps users to *analyze information* to put it in the right form for making marketing decisions and managing customer relationships.
- It *distributes* the marketing information and helps managers *use* it in their decision making.

Marketing information system (MIS)
People, equipment, and procedures to gather, sort, analyze, evaluate, and distribute needed, timely, and accurate information to marketing decision makers.

Assessing Marketing Information Needs

The marketing information system primarily serves the company's marketing and other managers. However, it may also provide information to external partners such as suppliers, resellers, or marketing services agencies.

A good marketing information system balances the information users would *like* to have against what they really *need* and what is *feasible* to offer. The company begins by interviewing managers to find out what information they would like. There are several issues to consider when developing the MIS:

- *Amount of information*. Too much information can be as harmful as too little. Other managers may omit things they ought to know, or they may not know to ask for some types of information they should have. Hence, the MIS must monitor the marketing environment to provide decision makers with information they should have to make key marketing decisions.
- *Availability of information*. Sometimes the company cannot provide the needed information either because it is not available or because of MIS limitations. For example, a brand manager might want to know how competitors will change their advertising budgets next year and how these changes will affect industry market shares. The information on planned budgets probably is not available. Even if it is, the company's MIS may not be advanced enough to forecast resulting changes in market shares.
- *Costs*. The costs of obtaining, processing, storing, and delivering information can mount quickly. Marketers should not assume that additional information will always be worth obtaining. Rather, they should weigh carefully the costs of getting more information against the benefits resulting from it.

Developing Marketing Information

Marketers can obtain the needed information from *internal data*, *marketing intelligence*, and *marketing research*.

Internal Data

Internal databases
Electronic collections of consumer and market information obtained from data sources within the company network.

Many companies build extensive **internal databases**—electronic collections of consumer and market information obtained from data sources within the company network. Information in the database can come from many sources. The accounting department prepares financial statements and keeps detailed records of sales, costs, and cash flows. Operations reports on production schedules, shipments, and inventories. The marketing department furnishes information on customer transactions, demographics, psychographics, and buying behavior. The customer service department keeps records of customer satisfaction or service problems. The sales force reports on reseller reactions and competitor activities, and marketing channel partners provide data on point-of-sale transactions. Harnessing such information can provide a powerful competitive advantage.

Here is an example of how one company uses its internal database to make better marketing decisions:

Internal database – Pizza Hut can slice and dice its extensive customer database by favorite toppings, what you ordered last, and whether you buy a salad with your cheese and pepperoni pizza; targeting coupon offers to specific households based on past buying behaviors and preferences.

Pizza Hut claims to have the largest fast-food customer database in the world. The database contains detailed customer information on 40 million U.S. households, gleaned from phone orders, online orders, and point-of-sale transactions at its more than 7,500 restaurants around the nation. The company can analyze the data by favorite toppings, what you ordered last, and whether you buy a salad with your cheese and pepperoni pizza. Pizza Hut also tracks in real time what commercials people are watching and responding to. It then uses all this data to enhance customer relationships. For example, it can target coupon offers to specific households based on past buying behaviors and preferences.[5]

Internal databases usually can be accessed more quickly and cheaply than other information sources, but they also present some problems. Because internal information is often collected for other purposes, it may be incomplete or in the wrong form for making marketing decisions. For example, sales and cost data used by the accounting department for preparing financial statements must be adapted for use in evaluating the value of specific customer segments, the sales force, or channel performance. Data also ages quickly; keeping the database current requires a major effort. In addition, a large company produces mountains of information, which must be well integrated and readily accessible so that managers can find it easily and use it effectively.

Competitive marketing intelligence
The systematic collection and analysis of publicly available information about consumers, competitors, and developments in the marketing environment.

Competitive Marketing Intelligence

Competitive marketing intelligence is the systematic collection and analysis of publicly available information about competitors and developments in the marketplace. The goal of marketing intelligence is to improve strategic decision making, assess and track competitors' actions, and provide early warning of opportunities and threats.

Marketing intelligence gathering has grown dramatically as more and more companies are now busily eavesdropping on the marketplace and snooping on their competitors. Techniques range from monitoring Internet buzz or observing consumers firsthand to quizzing the company's own employees, benchmarking competitors' products, researching the Internet, lurking around industry trade shows, and even rooting through rivals' trash bins.

Good marketing intelligence can help marketers gain insights into how consumers talk about and connect with their brands. Many companies send out teams of trained observers to mix and mingle with customers as they use and talk about the company's products. Other companies routinely monitor consumers' online chatter with the help of monitoring services.

› Competitive marketing intelligence: MasterCard's digital intelligence command center—called the Conversation Suite—monitors, analyzes, and responds in real time to millions of brand-related conversations across 43 markets and 26 languages around the world.

Mastercard has a digital intelligence command center called the Conversation Suite which monitors, analyzes, and responds in real time to millions of online conversations around the world. It monitors online brand-related conversations across 43 markets and 26 languages. It tracks social networks, blogs, online and mobile video, as well as traditional media. Its staff huddle with managers from various MasterCard departments and business units in front of a giant 12-meter LED screen that displays summaries of ongoing global brand conversations, refreshed every four minutes. A rotating group of marketing and customer service people spends two or three hours a day in the command center. "It's a real-time focus group," says a MasterCard marketing executive. "We track all mentions of MasterCard and any of our products, plus the competition." MasterCard uses what it sees, hears, and learns in the Conversation Suite to improve its products and marketing, track brand performance and spark meaningful customer conversations and engagement. MasterCard is even training "social ambassadors" and "social concierges," who can join online conversations and engage customers and brand influencers directly. "Today, almost everything we do [across the company] is rooted in insights we're gathering from the Conversation Suite," says another manager. "[It's] transforming the way we do business."[6]

Companies also need to actively monitor competitors' activities. Firms use competitive marketing intelligence to gain early warnings of competitor moves and strategies, new-product launches, new or changing markets, and potential competitive strengths and weaknesses. Much competitor intelligence can be collected from people inside the company—executives, engineers and scientists, purchasing agents, and the sales force. The company can also obtain important intelligence information from suppliers, resellers, and key customers. And it can get good information by observing competitors and monitoring their published information.

❯ Using real-time information based on Tweets and other social media interactions, Samsung created a TV ad, poking fun at the launch of the iPhone. This rechanneled the excitement associated with the iPhone to the Galaxy.

Samsung and Apple – Samsung used intelligence gained from real-time monitoring of the social media activity surrounding the introduction of competitor Apple's new iPhone 5 line to capture record-breaking sales of its own signature Galaxy S smartphones. When Apple CEO Tim Cook was on stage unveiling the new iPhone 5, Samsung marketing and ad agency executives were huddled around their computers and TV screens to watch as the events unfold. The Samsung strategists carefully monitored not only each new iPhone 5 feature as it was presented, but also the gush of online consumer commentary flooding blogs and social media channels. Even as the real-time consumer and competitive data surged in, the Samsung team began shaping a marketing response. By the time Cook finished his presentation, the Samsung team was already drafting a series of TV, print, and social media ads. The following week, just as the iPhone 5 was hitting store shelves, Samsung aired a 90-second TV commercial mocking iPhone 5 fans lining up outside Apple storesonly to be upstaged by passersby and their Samsung Galaxy smartphones. Lines in the ad were base don thousands of actual Tweets and other social media interactions poking fun at or complaining about specific iPhone 5 features. The real-time-insights-based ad became the tech-ad sensation of the year, grabbing more than 70 million online views. This allowed Samsung to rechannel excitement surrounding the iPhone 5 debut to sell a record number of its own Galaxy S phones.

Competitors often reveal intelligence information through their annual reports, business publications, trade show exhibits, press releases, advertisements, and Web pages. The Web has become an invaluable source of competitive intelligence. Using Internet search engines, marketers can search specific competitor names, events, or trends and see what turns up. Moreover, most companies place information on their Web sites, providing details to attract customers, partners, suppliers, investors, or franchisees. This can provide useful information about competitors' strategies, markets, new products, facilities, and other happenings.

Something as simple as a competitor's job postings can be very revealing. For example, while poking around on Google's company Web site, Microsoft's Bill Gates came across a help-wanted page describing all the jobs available at Google. To his surprise, he noted that Google was looking for engineers with backgrounds that had nothing to do with its Web-search business but everything to do with Microsoft's core software businesses. Forewarned that Google might be preparing to become more than just a search engine company, Gates emailed a handful of Microsoft executives, saying, in effect, "We have to watch these guys. It looks like they are building something to compete with us."[7]

The intelligence game goes both ways. Facing determined marketing intelligence efforts by competitors, most companies take steps to protect their own information. For example, Unilever conducts widespread competitive intelligence training. Employees are taught not just how to collect intelligence information but also how to protect company information from competitors. Unilever even performs random checks on internal security. Says a former staffer, "At one [internal marketing] conference, we were set up when an actor was employed to infiltrate the group. The idea was to see who spoke to him, how much they told him, and how long it took to realize that no one knew him. He ended up being there for a long time."[8]

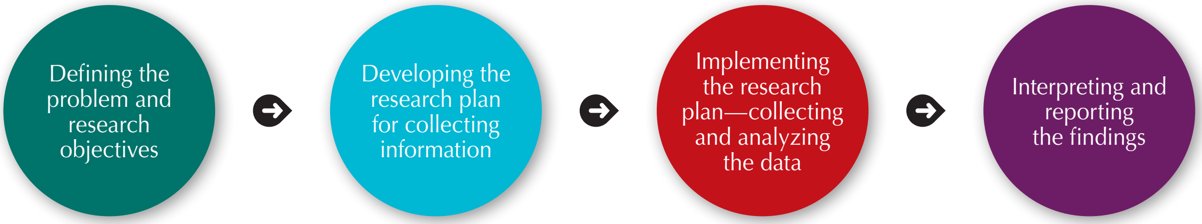


FIGURE 4.2
The marketing research process

Marketing Research

Sometimes, marketers need formal studies of specific situations. For example, Samsung wants to know how many and what kinds of people will buy its various mobile phones. In such situations, managers will need marketing research.

Marketing research is the systematic design, collection, analysis, and reporting of data relevant to a specific marketing situation facing an organization. Companies use marketing research in a wide variety of situations. For example, marketing research can help marketers understand customer satisfaction and purchase behavior. It can help them to assess market potential and market share or to measure the effectiveness of pricing, product, distribution, and promotion activities.

The marketing research process has four steps (see **Figure 4.2**): defining the problem and research objectives, developing the research plan, implementing the research plan, and interpreting and reporting the findings.

Marketing research
The systematic design, collection, analysis, and reporting of data relevant to a specific marketing situation facing an organization.

Defining the Problem and Research Objectives

Marketing managers and researchers must work closely to define the problem and agree on research objectives. After the problem has been defined carefully, the research objectives are set. Together, the statement of the problem and research objectives guides the entire research process.

A marketing research project might have one of three types of objectives:

- The objective of **exploratory research** is to gather preliminary information that will help define the problem and suggest hypotheses.
- The objective of **descriptive research** is to describe things, such as the market potential for a product or the demographics and attitudes of consumers who buy the product.
- The objective of **causal research** is to test hypotheses about cause-and-effect relationships. For example, would a 10 percent decrease in tuition fees at a private college result in an enrollment increase sufficient to offset the reduced tuition fees?

Managers often start with exploratory research and later follow with descriptive or causal research.

Exploratory research
Marketing research to gather preliminary information that will help define problems and suggest hypotheses.

Descriptive research
Marketing research to better describe marketing problems, situations, or markets, such as the market potential for a product or the demographics and attitudes of consumers.

Causal research
Marketing research to test hypotheses about cause-and-effect relationships.

Developing the Research Plan

Next, researchers must:

- determine the exact information needed,
- develop a plan for gathering it efficiently, and
- present the plan to management.

The research plan outlines sources of existing data and spells out the specific research approaches, contact methods, sampling plans, and instruments that researchers will use to gather new data.

Research objectives must be translated into specific information needs. For example, suppose Red Bull wants to conduct research on how consumers would react to a proposed new vitamin-enhanced water drink in several flavors sold under the Red Bull name. Red Bull currently dominates the worldwide energy drink market. However, in an effort to expand beyond its energy drink niche, the company recently introduced Red Bull Cola ("Why not?" asked the company; it's strong and natural, just like the original Red Bull energy drink). A new line of enhanced waters—akin to Glacéau's Vitaminwater—might help Red Bull leverage its strong brand position even further. The proposed research might call for the following specific information:

- The demographic, economic, and lifestyle characteristics of current Red Bull customers: Do current customers also consume enhanced-water products? Are such products consistent with their lifestyles? Or would Red Bull need to target a new segment of consumers?
- The characteristics and usage patterns of the broader population of enhanced-water users: What do they need and expect from such products, where do they buy them, when and how do they use them, and what existing brands and price points are most popular? (The new Red Bull product would need strong, relevant positioning in the crowded enhanced-water market.)
- Retailer reactions to the proposed new product line: Would they stock and support it? Where would they display it? (Failure to get retailer support would hurt sales of the new drink.)
- Forecasts of sales of both the new and current Red Bull products: Will the new enhanced waters create new sales or simply take sales away from current Red Bull products? Will the new product increase Red Bull's overall profits?
- Red Bull's marketers will need these and many other types of information to decide whether and how to introduce the new product.

❯ A decision by Red Bull to add a line of enhanced waters to its already successful mix of energy and cola drinks would call for marketing research that provides lots of specific information.

The research plan should be presented in a *written proposal*. A written proposal is especially important when the research project is large and complex or when an outside firm carries it out. The proposal should cover the management problems addressed and the research objectives, the information to be obtained, and the way the results will help management make decisions. The proposal also should include research costs.

To meet the manager's information needs, the research plan can call for gathering secondary data, primary data, or both. **Secondary data** consist of information that already exists somewhere, having been collected for another purpose. **Primary data** consist of information collected for the specific purpose at hand.

Secondary data
Information that already exists somewhere, having been collected for another purpose.

Primary data
Information collected for the specific purpose at hand.

Online database
Computerized collection of information available from online commercial sources or via the Internet.

Gathering Secondary Data

Researchers usually start by gathering secondary data. The company's internal **online database** provides a good starting point. However, the company can also tap a wide assortment of external information sources, including commercial data services and government sources (see **Table 4.1**).

Companies can buy secondary data reports from external suppliers. For example, Nielsen sells buyer data from a panel of 125,000 households in two dozen countries, with measures of trial and repeat purchasing, brand loyalty, and buyer demographics.[9]

TABLE 4.1
Selected External Information Sources

For business data:
The Nielsen Company (www.nielsen.com) provides supermarket scanner data on sales, market share, and retail prices; data on household purchasing; and data on television audiences.
Millward Brown (www.millwardbrown.com) is a global research agency specializing in advertising, marketing communication, media, and brand equity.
Dun & Bradstreet (www.dnb.com) maintains a database containing information on more than 50 million individual companies around the globe.
comScore Networks (www.comscore.com) provides consumer behavior information and geodemographic analysis of Internet and digital media users around the world.
LexisNexis (www.lexisnexis.com) features articles from business, consumer, and marketing publications plus tracking of firms, industries, trends, and promotion techniques.
Factiva (www.factiva.com) specializes in in-depth financial, historical, and operational information on public and private companies.
Hoover's, Inc. (www.hoovers.com) provides business descriptions, financial overviews, and news about major companies around the world.
For government data:
United Nations (Statistical Indicators for Asia and the Pacific and other publications).
Data books of various countries and cities.
Annual Survey of Manufacturers; Census of Population; Census of Retail Trade, under various titles depending on country.
For Internet data:
ClickZ (www.clickz.com) brings together a wealth of information about the Internet and its users, from consumers to e-commerce.
Interactive Advertising Bureau (www.iab.net) covers statistics about advertising on the Internet.
Forrester.com (www.forrester.com/rb/research) monitors Web traffic and ranks the most popular sites.

There are advantages to secondary data:

- They can be obtained more quickly and at a lower cost than primary data.
- They can sometimes provide data an individual company cannot collect on its own—information that either is not directly available or would be too expensive to collect. For example, it would be too expensive for Nissin instant noodles to conduct a continuing retail store audit to find out about the market shares, prices, and displays of competitors' brands. But it could buy from Nielsen information based on scanner data.

Gathering secondary data – Companies can buy secondary reports from outside suppliers such as The Nielsen Company.

Secondary data can also present problems:

- The needed information may not exist. For example, Nissin will not find existing information about consumer reactions to new packaging that it has not yet placed on the market.
- Even when data can be found, they might not be very usable. The researcher must evaluate secondary information carefully to make certain it is *relevant* (fits research project needs), *accurate* (reliably collected and reported), *current* (up-to-date enough for present decisions), and *impartial* (objectively collected and reported).

Primary Data Collection

In most cases, the company must also collect primary data. It needs to make sure that the data will be relevant, accurate, current, and unbiased. **Table 4.2** shows that designing a plan for primary data collection calls for a number of decisions on *research approaches*, *contact methods*, *sampling plan*, and *research instruments*.

Research Approaches

Research approaches for gathering primary data include observation, surveys, and experiments. Here, we discuss each one in turn.

TABLE 4.2
Planning Primary Data Collection

Research Approaches	Contact Methods	Sampling Plan	Research Instruments
Observation	Mail	Sampling unit	Questionnaire
Survey	Telephone	Sample size	Mechanical instruments
Experiment	Personal	Sampling procedure	
	Online		

Observational research
The gathering of primary data by observing relevant people, actions, and situations.

Ethnographic research
A form of observational research that involves sending trained observers to watch and interact with consumers in their "natural habitat."

Observational Research

Observational research involves gathering primary data by observing relevant people, actions, and situations. For example, a bank might evaluate possible new branch locations by checking traffic patterns, neighborhood conditions, and the location of competing branches.

Researchers often observe consumer behavior to glean insights they can't obtain by simply asking customers questions. For instance, Fisher-Price set up an observation lab in which it can observe the reactions of little tots to new toys. The Fisher-Price Play Lab is a sunny, toy-strewn space where lucky kids get to test Fisher-Price prototypes, under the watchful eyes of designers who hope to learn what new toys will get kids worked up into a frenzy.

Observational research can obtain information that people are unwilling or unable to provide. In some cases, observation may be the only way to obtain the information needed. In contrast, some things simply cannot be observed, such as feelings, attitudes and motives, or private behavior. Long-term or infrequent behavior is also difficult to observe. Because of these limitations, researchers often use observation along with other data collection methods.

Some companies also use **ethnographic research**. Ethnographic research involves sending trained observers to watch and interact with consumers in their "natural habitat."

Ethnographic research often yields details that do not emerge from traditional research questionnaires or focus groups. It provides a richer understanding of consumers compared to traditional research. Although companies are still using focus groups, surveys, and demographic data to glean insights into the consumer's mind, close observation allows companies to zero in on their customers' unarticulated desires.[10]

However, cultural differences may affect how ethnographic research is conducted, as in China:[11]

❯ Observational research – Fisher-Price set up an observation lab in which it could observe the reactions of little tots to new toys.

- Chinese translators may misinterpret the information.
- As China is a relationship-oriented society, Chinese do not respond well to strangers as the social structure differentiates "in-groups" (family and friends) from "out-groups" (strangers).
- Ethnographic researchers asking a similar question repeatedly in multiple ways with an inquisitive attitude may come across as offensive interrogators to the Chinese, who are keen to maintain harmonious relationships.
- Interviewers who need to be emotionally distant may come across as insincere and create distrustful feelings among the Chinese, who see friendship as often a prerequisite to dealing with business and money.
- Chinese traditional education is dogmatic and requires the young to be obedient and silent. This upbringing discourages openness in verbal communications and refrains from giving criticism. Truthful feelings or opinions may be less forthcoming.
- Data interpretation should be from the viewpoint of the Chinese.

Survey Research

Survey research, the most widely used method for primary data collection, is best suited for gathering *descriptive* information. A company that wants to know about people's knowledge, attitudes, preferences, or buying behavior can often find out by asking them directly.

The major advantage of survey research is its flexibility—it can be used to obtain many different kinds of information in many different situations. However, survey research also presents some problems. Sometimes, people are unable to answer survey questions because they cannot remember or have never thought about what they do and why. People may be unwilling to respond to unknown interviewers or about things they consider private. Respondents may answer survey questions even when they do not know the answer to appear smarter or more informed. Or they may try to help the interviewer by giving pleasing answers. Finally, busy people may not take the time, or they might resent the intrusion into their privacy.

Survey research
Gathering primary data by asking people questions about their knowledge, attitudes, preferences, and buying behavior.

Experimental research
Gathering primary data by selecting matched groups of subjects, giving them different treatments, controlling related factors, and checking for differences in group responses.

Experimental Research

Whereas observation is best suited for exploratory research and surveys for descriptive research, **experimental research** is best suited for gathering *causal* information. Experiments involve selecting matched groups of subjects, giving them different treatments, controlling unrelated factors, and checking for differences in group responses. Thus, experimental research tries to explain cause-and-effect relationships.

Contact Methods

Information can be collected by mail, telephone, personal interview, or online. **Table 4.3** shows the strengths and weaknesses of each of these contact methods.

TABLE 4.3
Strengths and Weaknesses of Contact Methods

	Mail	Telephone	Personal	Online
Flexibility	Poor	Good	Excellent	Good
Quantity of data that can be collected	Good	Fair	Excellent	Good
Control of interviewer effects	Excellent	Fair	Poor	Fair
Control of sample	Fair	Excellent	Good	Excellent
Speed of data collection	Poor	Excellent	Good	Excellent
Response rate	Fair	Good	Good	Good
Cost	Good	Fair	Poor	Excellent

Source: Adapted with permission of the authors, Donald S. Tull and Del I. Hawkins, *Marketing Research: Measurement and Method,* 7th ed. (New York: Macmillan Publishing Company, 1993).

Mail, Telephone, and Personal Interviewing

Mail questionnaires can be used to collect large amounts of information at a low cost per respondent. Respondents may give more honest answers to more personal questions on a mail questionnaire than to an unknown interviewer in person or over the phone. Also, no interviewer is involved to bias the respondent's answers.

However, mail questionnaires are not very flexible as all respondents answer the same questions in a fixed order. Mail surveys usually take longer to complete, and the response rate—the number of people returning completed questionnaires—is often very low. Finally, the researcher often has little control over the mail questionnaire sample. Even with a good mailing list, it is hard to control *who* at the mailing address fills out the questionnaire.

Telephone interviewing is one of the best methods for gathering information quickly, and it provides greater flexibility than mail questionnaires. Interviewers can explain difficult questions and, depending on the answers they receive, skip some questions or probe on others. Response rates tend to be higher than with mail questionnaires, and interviewers can ask to speak to respondents with the desired characteristics or even by name.

However, with telephone interviewing, the cost per respondent is higher than with mail questionnaires. Also, people may not want to discuss personal questions with an interviewer. The method introduces interviewer bias—the way interviewers talk, how they ask questions, and other differences may affect respondents' answers. Finally, different interviewers may interpret and record responses differently, and under time pressure some interviewers might even cheat by recording answers without asking questions.

Personal interviewing takes two forms—individual and group interviewing. *Individual interviewing* involves speaking with people in their homes or offices, on the street, or in shopping malls. Such interviewing is flexible. Trained interviewers can guide interviews, explain difficult questions, and explore issues as the situation requires. They can show subjects actual products, advertisements, or packages and observe reactions and behavior. However, individual personal interviews may cost three to four times as much as telephone interviews.

Group interviewing consists of inviting six to 10 people to meet with a trained moderator to talk about a product, service, or organization. Participants normally are paid a small sum for attending. The moderator encourages free and easy discussion, hoping that group interactions will bring out actual feelings and thoughts. At the same time, the moderator "focuses" the discussion—hence the name **focus group interviewing**.

› Focus group interviewing – An effective moderator encourages free and easy discussion and guides the participants to discuss about the research topic.

Researchers and marketers watch the focus group discussions from behind one-way glass, and comments are recorded in writing or on video for later study. Today, focus group researchers can even use videoconferencing and Internet technology to connect marketers in distant locations with live focus group action. Using cameras and two-way sound systems, marketing executives in a far-off boardroom can look in and listen, using remote controls to zoom in on faces and to pan the focus group at will.

Focus group interviewing
Personal interviewing that involves inviting six to 10 people to gather for a few hours with a trained interviewer to talk about a product, service, or organization. The interviewer "focuses" the group discussion on important issues.

Focus group interviewing has become one of the major marketing research tools for gaining insights into consumer thoughts and feelings. However, focus group studies present some challenges. They usually employ small samples to keep time and costs down, and it may be hard to generalize from the results. Moreover, consumers in focus groups are not always open and honest in front of other people. There may be some peer pressure in focus groups that gets in the way of finding the truth about real behavior and intentions.[12]

Thus, although focus groups are still widely used, many researchers are tinkering with focus group design. For example, at Yahoo!, "immersion groups" are used where Yahoo! product designers talk informally to four or five people, without a focus group moderator present. That way, rather than just seeing videos of consumers reacting to a moderator, Yahoo! staff can work directly with select customers to design new products and programs.[13]

Other researchers are changing the environments in which they conduct focus groups. To help consumers relax and to elicit more authentic responses, they use settings that are more comfortable and more relevant to the products being researched. For example, they might conduct focus groups for cooking products in a kitchen setting, or focus groups for home furnishings in a living room setting.

Online Marketing Research

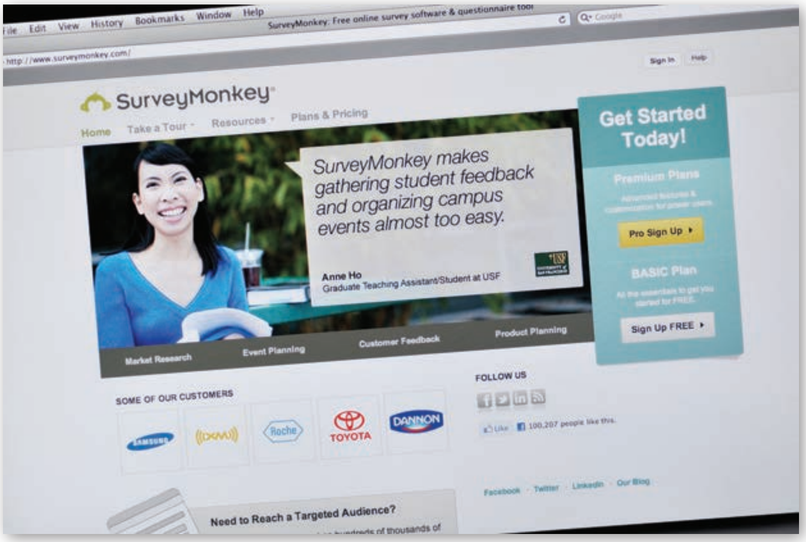
Advances in communication technologies have resulted in a number of high-tech contact methods. The latest technology to hit marketing research is the Internet. Increasingly, marketing researchers are collecting primary data through **online marketing research**—*Internet surveys*, *online panels*, *experiments*, and *online focus groups*.

Online marketing research
Collecting primary data through Internet surveys and online focus groups.

Online research can take many forms. A company can use the Web as a survey medium: It can include a questionnaire on its Web site and offer incentives for completing it. It can use email, Web links, or Web pop-ups to invite people to answer questions. It can create online panels that provide regular feedback or conduct live discussions or online focus groups. Beyond surveys, researchers can conduct experiments on the Web. They can experiment with different prices, headlines, or product features on different Web sites or at different times to learn the relative effectiveness of their offers. Or they can set up virtual shopping environments and use them to test new products and marketing programs. Finally, a company can learn about the behavior of online customers by following their click streams as they visit the Web site and move to other sites.

The Internet is especially well suited to *quantitative* research—conducting marketing surveys and collecting data. Web-based survey research offers some real advantages over traditional phone, mail, and personal interviewing approaches. The most obvious advantages are speed and low costs. By going online, researchers can quickly and easily distribute Internet surveys to thousands of respondents simultaneously via email or by posting them on selected Web sites. Responses can be almost instantaneous, and because respondents themselves enter the information, researchers can tabulate, review, and share research data as they arrive.

Online research usually costs much less than research conducted through mail, phone, or personal interviews. Using the Internet eliminates most of the postage, phone, interviewer, and data-handling costs associated with the other approaches. As a result, Internet surveys typically cost 15 to 20 percent less than mail surveys and 30 percent less than phone surveys. Moreover, sample size has little impact on costs. Once the questionnaire is set up, there's little difference in cost between 10 respondents and 10,000 respondents on the Web.



› Online research – Because of survey services such as SurveyMonkey, almost all businesses, large or small, can create, publish, and distribute their own custom surveys in minutes.

Thus, online research is well within the reach of almost any business, large or small. In fact, with the Internet, what was once the domain of research experts is now available to almost any would-be researcher. Even smaller, less sophisticated researchers can use online survey services such as Zoomerang (www.zoomerang.com) and SurveyMonkey (www.surveymonkey.com) to create, publish, and distribute their own custom surveys in minutes.

Beyond their speed and cost advantages, Web-based surveys also tend to be more interactive and engaging, easier to complete, and less intrusive than traditional phone or mail surveys. As a result, they usually garner higher response rates. The Internet is an excellent medium for reaching the hard-to-reach—for example, the often-elusive teen, single, affluent, and well-educated audiences. It's also good for reaching working mothers and other people who lead busy lives. Such people are well represented online, and can respond in their own space and at their own convenience.

Just as marketing researchers have rushed to use the Internet for quantitative surveys and data collection, they are now also adopting *qualitative* Web-based research approaches, such as online in-depth interviews, focus groups, blogs, and social networks. The Internet can provide a fast, low-cost way to gain qualitative customer insights.

Online focus groups
Gathering a small group of people online with a trained moderator to chat about a product, service, or organization and gain qualitative insights about consumer attitudes and behavior.

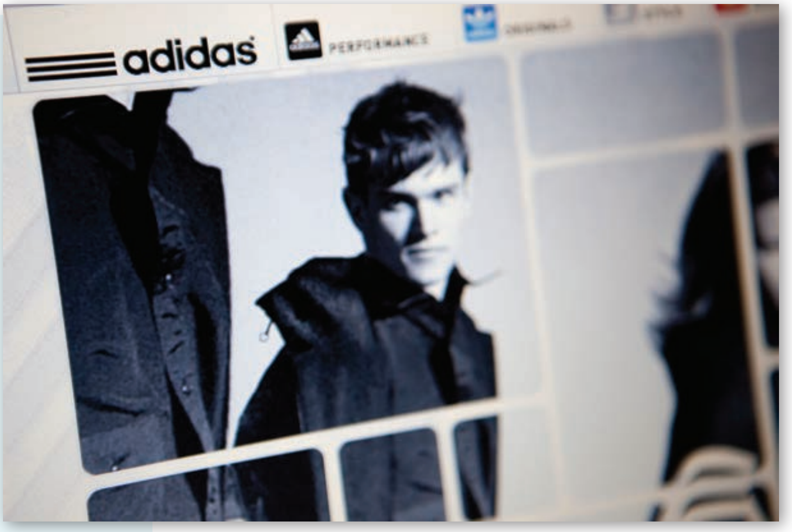
A primary qualitative Web-based research approach is **online focus groups**. Such focus groups offer many advantages over traditional focus groups. Participants can log in from anywhere; all they need is a laptop and a Web connection. Thus, the Internet works well for bringing together people from different parts of the country or world, especially those in higher-income groups who can't spare the time to travel to a central venue. Also, researchers can conduct and monitor online focus groups from just about anywhere, eliminating travel, lodging, and facility costs. Finally, although online focus groups require some advance scheduling, results are almost immediate.

Online focus groups can take any of several formats. Most occur in real time, in the form of online chat room discussions in which participants and a moderator sit around a virtual table exchanging comments. Alternatively, researchers might set up an online message board on which respondents interact over the course of several days or a few weeks. Participants log in daily and comment on focus group topics.

Although the use of online marketing research is growing rapidly, both quantitative and qualitative Web-based research have some drawbacks. One major problem is controlling who's in the online sample. Without seeing respondents, it's difficult to know who they really are. To overcome such sample and context problems, many online research firms use opt-in communities and respondent panels. For example, Zoomerang offers an online consumer and business panel profiled on more than 500 attributes.[14] Alternatively, many companies are developing their own custom social networks and using them to gain customer inputs and insights. Consider adidas:

adidas – When adidas developed a Facebook fan page, it quickly attracted 2 million users. Ditto for its pages on Twitter and YouTube. But monitoring and analyzing these postings in public online communities isn't realistic, so the sporting goods giant created its own private online community called adidas Insiders, inviting only the most active users on its public pages to join. Through online conversations with and among adidas Insiders, company marketers can quickly gather real-time consumer feedback about brand perceptions, product ideas, and marketing campaigns. adidas Insiders are surprisingly willing—and even anxious—to be involved. "It's a great help to [us] spending time with consumers that love the brand as much as we do," says adidas' director of digital media.

Testing strategies and concepts with the Insiders group provides fast and actionable customer insights for adidas' product marketing teams. "We're able to play with colors and materials and get instant feedback from these fans, which allows us to be more efficient in development and go-to-market planning," says the adidas marketing executive. "We've even asked about things like voiceovers for videos and received surprising feedback that's caused us to alter creative."[15]



adidas created its own private online community to obtain consumer feedback about its brand, ideas, and marketing campaigns.

Thus, in recent years, the Internet has become an important new tool for conducting research and developing customer insights. But today's marketing researchers are going even further on the Web—well beyond structured online surveys, focus groups, and Web communities. Increasingly, they are listening to and watching consumers by actively mining the rich veins of unsolicited, unstructured, "bottom-up" customer information already coursing around the Web. This might be as simple as scanning customer reviews and comments on the company's brand site or shopping sites such as Amazon.com. Or it might mean using sophisticated Web-analysis tools to deeply analyze mountains of consumer comments and messages found in blogs or on social networking sites, such as Facebook or Twitter. Listening to and watching consumers online can provide valuable insights into what consumers are saying or feeling about brands. **Real Marketing 4.1** discusses the use of the Web in understanding consumers.

Perhaps the most explosive issue facing online researchers is consumer privacy. Some fear that unethical researchers will use the email addresses and confidential responses gathered through surveys to sell products after the research is completed. They are concerned about the use of electronic agents (such as Trojans) that collect personal information without the respondents' consent. Failure to address such privacy issues could result in angry, less cooperative consumers and increased government intervention. Despite these concerns, most industry insiders predict healthy growth for online marketing research.[16]

Sample
A segment of the population selected for marketing research to represent the population as a whole.

Sampling Plan

Marketing researchers usually draw conclusions about large groups of consumers by studying a small sample of the total consumer population. A **sample** is a segment of the population selected for marketing research to represent the population as a whole. Ideally, the sample should be representative so that the researcher can make accurate estimates of the thoughts and behaviors of the larger population.

Designing the sample requires three decisions (see **Figure 4.3**). First, *who* is to be surveyed (what *sampling unit*)? For example, to study the decision-making process for a family automobile purchase, should the researcher interview the husband, wife, other family members, dealership salespeople, or all of these? The researcher must determine what information is needed and who is most likely to have it.

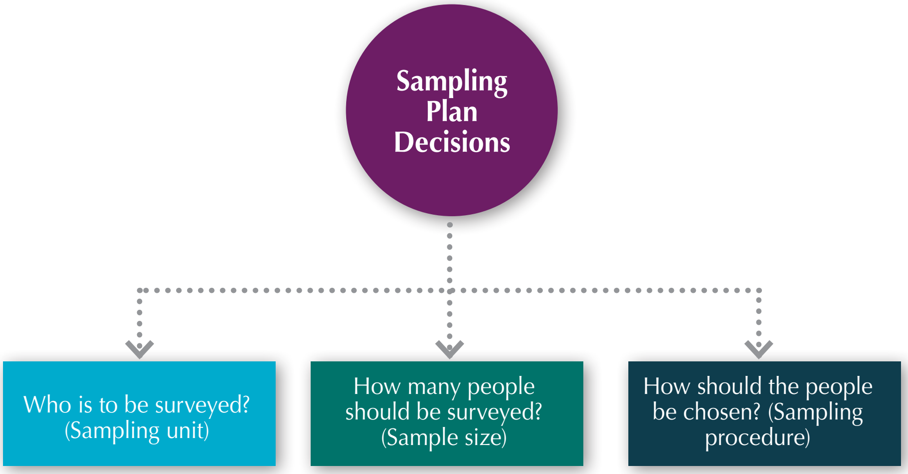


FIGURE 4.3
Decisions made in a sampling plan

Second, *how many* people should be surveyed (what *sample size*)? Large samples give more reliable results than small samples. However, larger samples usually cost more, and it is not necessary to sample the entire target market or even a large portion to get reliable results. If well chosen, samples of less than 1 percent of a population can often give good reliability.

Third, *how* should the people in the sample be *chosen* (what *sampling procedure*)? **Table 4.4** describes different kinds of samples. Using *probability samples*, each population member has a known chance of being included in the sample, and researchers can calculate confidence limits for sampling error. But when probability sampling costs too much or takes too much time, marketing researchers often take *non-probability samples*, even though their sampling error cannot be measured. These varied ways of drawing samples have different costs and time limitations as well as different accuracy and statistical properties. Which method is best depends on the needs of the research project.

Real Marketing 4.1

Deep Customer Insights through Market Research: The P&G Way

Can a consumer develop a meaningful relationship with their laundry detergent? Procter & Gamble (P&G) believes they can. However, this involves getting to know each customer really well. For this purpose P&G goes on a consumer research mission—to unearth and document the deep connections that customers have with its products. The marketing managers at P&G themselves take a proactive role and get involved with their customers by accompanying the customers as they work, shop, and run errands. They also sit in on discussion to hear customers talk about what's important to them.

In 2010, such immersion research produced remarkable consumer insights. For Tide, one of P&G's stalwart brands, the marketers learned that, although Tide and laundry aren't the most important things in customers' lives, women are very emotional about their clothing. They like taking care of their clothes and fabrics because the items are filled with emotions, stories, feelings, and memories. They express their personalities, their attitudes, and their differing roles as a woman through the fabrics they choose to wear.

This research impacted everything the brand did moving forward. The marketers decided that Tide can do more than solve women's laundry problems. It can make a difference in something that women truly care about—the fabrics that touch their lives. In one of the U.S. TV commercials, a pregnant woman dribbled ice cream on the one last shirt that still fit. Tide with Bleach came to the rescue, so that "your clothes can outlast your cravings."

In the Philippines, the Tide team went back to look to consumers and asked them what they look for in a laundry detergent. With that feedback, P&G developed a new formula that met local needs and budgets. The new Tide was not over-engineered in a way that Filipino consumers weren't interested in. Tide powder, in sachets and bars, were introduced to meet Filipinos' pockets.

Indeed, in many Asian countries, value for money is still a prime consideration. In China, when Tide faced competition from local brand Diao with its emotional ads, Tide sent its staff to rural areas to observe how Chinese consumers use laundry detergent. Their research showed that unlike U.S. consumers, many Chinese consumers only wanted laundry detergent for the basic function of cleaning, while ignoring complementary functions like clothes caring and softening.

Word-of-mouth marketing was also an important informational source that influenced rural consumption patterns. In response, P&G relaunched Tide Clean White at a competitive price, with a new packaging that came in a smaller bag as well as the economical big bag. Its ads featured the performance of Tide by comparing it with other washing powders, emphasizing value and the lifestyles of Tide's target consumers.

So, back to the question: Can you develop a relationship with a laundry detergent brand? Insights gained from P&G's consumer research showed that such relationships aren't just possible—they're inevitable. The key is to really understand the true nature of the relationship, and shape it by creating real value for customers. Such an understanding comes from marketing research, not only on a company's products and marketing programs but also on core customer needs and brand experiences.

Sources

Christine Saunders and Liza Martindale, "Tide Celebrates the Diverse, Individual Style of Americans in New Advertising Campaign," P&G Press Release, 20 January 2010, www.multivu.prnewswire.com/mnr/tide/42056; Elaine Wong, "Marketer of the Year: Team Tide," *Adweek*, 14 September 2009, p. 20; "Case Study: Tide Knows Fabrics Best," *The Advertising Research Foundation*, www.thearf.org; Stuart Elliot, "A Campaign Linking Clean Clothes with Stylish Living," *The New York Times*, 8 January 2010; "Procter & Gamble's Tide in China," http://www.pearsonapac.com/, 29 April 2011; Jeffrey O. Valisno, "P&G Bullish on Detergents, Personal Care," www.abs-cbnnews.com, 22 March 2010.

TABLE 4.4
Types of Samples

Probability Sample	
Simple random sample	Every member of the population has a known and equal chance of selection.
Stratified random sample	The population is divided into mutually exclusive groups (such as age groups), and random samples are drawn from each group.
Cluster (area) sample	The population is divided into mutually exclusive groups (such as blocks), and the researcher draws a sample of the groups to interview.
Non-probability Sample	
Convenience sample	The researcher selects the easiest population members from which to obtain information.
Judgment sample	The researcher uses his or her judgment to select population members who are good prospects for accurate information.
Quota sample	The researcher finds and interviews a prescribed number of people in each of several categories.

Research Instruments

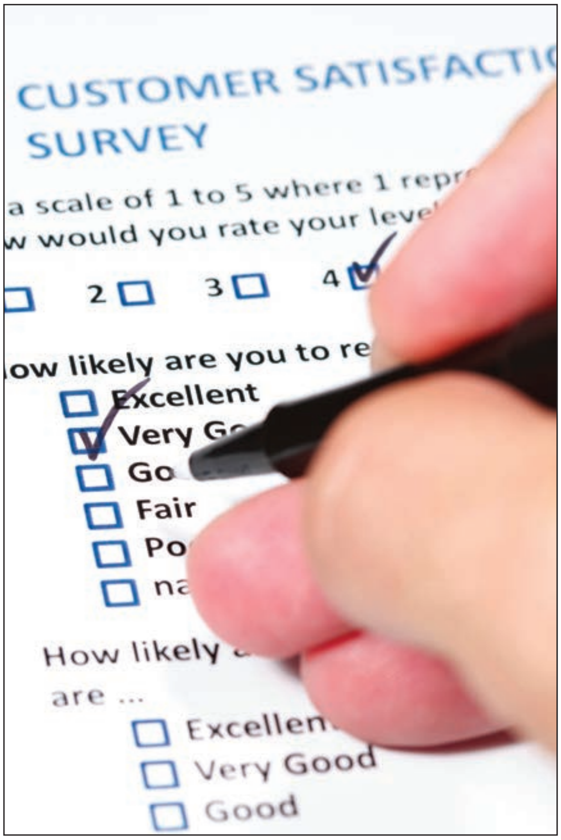
In collecting primary data, marketing researchers have a choice of two main research instruments—the *questionnaire* and *mechanical devices*. The *questionnaire* is by far the most common instrument, whether administered in person, by phone, or online.

Questionnaires are very flexible—there are many ways to ask questions. *Closed-ended questions* include all the possible answers, and subjects make choices among them. Examples include multiple-choice questions and scale questions.

Open-ended questions allow respondents to answer in their own words. In a survey of airline users, Cathay Pacific might simply ask, "What is your opinion of Cathay Pacific?" Or it might ask people to complete a sentence: "When I choose an airline, the most important consideration is …" These and other kinds of open-ended questions often reveal more than closed-ended questions because respondents are not limited in their answers. Open-ended questions are especially useful in exploratory research, when the researcher is trying to find out *what* people think but not measuring *how many* people think in a certain way. Closed-ended questions, on the other hand, provide answers that are easier to interpret and tabulate.

Researchers should also use care in the *wording* and *ordering* of questions. They should use simple, direct, unbiased wording. Questions should be arranged in a logical order. The first question should create interest if possible, and difficult or personal questions should be asked last so that respondents do not become defensive.

Although questionnaires are the most common research instrument, researchers also use *mechanical instruments* to monitor consumer behavior. Nielsen Media Research attaches *people meters* to television sets in selected



Closed-ended questions are easier to answer and to tabulate results from.

› Mechanical measures of consumer response – New technologies can record and interpret human facial expressions. In the not-too-distant future, marketers may be using machines that "know how you feel" to not just gauge customers' physical reactions, but to respond to them as well.

homes to record who watches which programs. Retailers use *checkout scanners* to record shoppers' purchases. Other mechanical devices measure subjects' physical responses. For example, advertisers use eye cameras to study viewers' eye movements while watching ads—what points their eyes focus on first and how long they linger on any given ad component.

Still other researchers are applying "neuromarketing," measuring brain activity to learn how consumers feel and respond. Marketing scientists using MRI scans and EEG devices have learned that tracking brain electrical activity and blood flow can provide companies with insights into what turns consumers on and off regarding their brands and marketing. "Companies have always aimed for the customers' heart, but the head may make a better target," suggests one neuromarketer. "Neuromarketing is reaching consumers where the action is: the brain."[17]

Companies ranging from Hyundai and PepsiCo to Google and Microsoft now hire neuromarketing research companies to help figure out what people are really thinking.

> **Hyundai** – Thirty men and women are studying a sporty silver test model of a next-generation Hyundai. The 15 men and 15 women are asked to stare at specific parts of the vehicle, including the bumper, the windshield, and the tires. Electrode-studded caps on their heads capture the electrical activity in their brains as they view the car for an hour. That brain-wave information is recorded in a hard drive each person wears on a belt. Hyundai believes that their brain activity will show preferences that could lead to purchasing decisions. "We want to know what consumers think about a car before we start manufacturing thousands of them," says Hyundai America's manager of brand strategy. He expects the carmaker will tweak the exterior based on the EEG reports, which track activity in all parts of the brain.[18]

Similarly, PepsiCo's Frito-Lay unit uses neuromarketing to test commercials, product designs, and packaging. EEG tests showed that, compared with shiny packages showing pictures of potato chips, matte beige bags showing potatoes and other healthy ingredients trigger less activity in an area of the brain associated with feelings of guilt. Thus, Frito-Lay quickly switched away from the shiny packaging. And eBay's PayPal began pitching its online payment service as "fast" after brain-wave research showed that speed turns consumers on more than security and safety, earlier themes used in eBay ad campaigns.

Although neuromarketing techniques can measure consumer involvement and emotional responses second by second, such brain responses can be difficult to interpret. Thus, neuromarketing is usually used in combination with other research approaches to gain a more complete picture of what goes on inside consumers' heads.

Implementing the Research Plan

The researcher next puts the marketing research plan into action. This involves collecting, processing, and analyzing the information. Data collection can be carried out by the company's marketing research staff or by outside firms. The data collection phase of the marketing research process is generally the most expensive and the most subject to error. Researchers should watch closely to make sure that the plan is implemented correctly. They must guard against problems when contacting respondents, with respondents who refuse to cooperate or who give biased answers, and with interviewers who make mistakes or take shortcuts (see **Figure 4.4**).

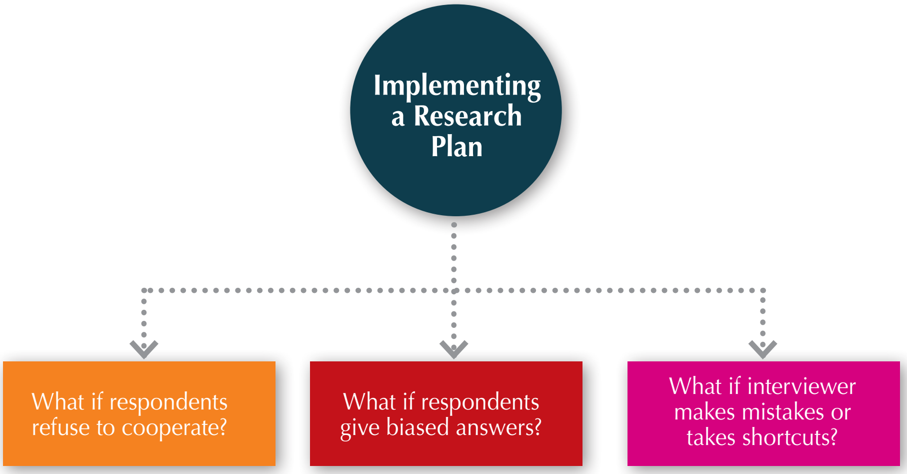


FIGURE 4.4
Issues to consider when implementing a research plan

Researchers must also process and analyze the collected data to isolate important information and findings. They need to check data for accuracy and completeness and code it for analysis. The researchers then tabulate the results and compute statistical measures.

Interpreting and Reporting the Findings

The market researcher must now interpret the findings, draw conclusions, and report them to management. The researcher should present important findings that are useful in the major decisions faced by management.

However, interpretation should not be left only to the researchers. They are often experts in research design and statistics, but the marketing manager knows more about the problem and the decisions that must be made. The best research means little if the manager blindly accepts faulty interpretations from the researcher. Similarly, managers may be biased—they might tend to accept research results that show what they expected and to reject those that they did not expect or hope for. In many cases, findings can be interpreted in different ways, and discussions between researchers and managers will help point to the best interpretations. Thus, managers and researchers must work together closely when interpreting research results, and both must share responsibility for the research process and resulting decisions.

Analyzing Marketing Information

Information gathered in internal databases and through marketing intelligence and research usually requires more analysis. Managers may need help in applying the information to their marketing decisions, including advanced statistical analysis to learn more about the relationships within a set of data. Such analysis allows managers to answer questions about markets, marketing activities, and outcomes.

Pepsi – Pepsi has always positioned itself as a now-generation of youthful cola drinkers, who is young in mind and spirit. "Come Alive! You're the Pepsi Generation!" was its mantra. Then, its sales and market share began slipping. To diagnose the reasons why, Pepsi launched a global consumer research to rediscover what does it take to make Pepsi different from Coke. They discovered that Pepsi had lost sight of what it stands for and the role it plays in customers' lives. It no longer had a clear positioning that defined the essence of the brand and fuel consumer engagement. They found that while Coke is timeless, Pepsi is timely; while Coke drinkers seek happiness, Pepsi drinkers seek excitement; while Coke preserves culture, Pepsi creates one; while Coke means belonging, Pepsi embraces individuality. It also showed that Pepsi drinkers around the world are remarkably similar. The "Live for Now" campaign was borne based on the research findings. In its India consumer research, Pepsi found that Indian youth are among the most optimistic in the world but are impatient for the future to happen sooner. So Pepsi TV ads in India feature brand endorsers such as cricket captain MS Dhoni, actress-cum-singer Priyanka Chopra, and Bollywood star Ranbir Kapoor overcoming moments of impatience, interspersed with images of young people doing exciting spur-of-the-moment things. The "Live for Now" campaign tells young Indian consumers that there is nothing wrong with wanting something now.

Information analysis might also involve a collection of analytical models that will help marketers make better decisions. Each model represents some real system, process, or outcome. These models can help answer the questions of *what if* and *which is best*. Marketing scientists have developed numerous models to help marketing managers make better marketing mix decisions, design sales territories and sales call plans, select sites for retail outlets, develop optimal advertising mixes, and forecast new-product sales.

Customer Relationship Management (CRM)

The question of how best to analyze and use individual customer data presents special problems. Most companies are awash with information about their customers. In fact, smart companies capture information at every possible customer *touch point*. These touch points include customer purchases, sales force contacts, service and support calls, Web site visits, satisfaction surveys, credit and payment interactions, market research studies—every point of contact between the customer and the company.

Unfortunately, this information is usually scattered widely across the organization. It is buried deep in the separate databases and records of different company departments. To overcome such problems, many companies turn to **customer relationship management (CRM)** to manage detailed information about individual customers and carefully manage customer touch points to maximize customer loyalty.

Customer relationship management (CRM)
Managing detailed information about individual customers and carefully managing customer touch points to maximize customer loyalty.

CRM consists of sophisticated software and analytical tools that integrate customer information from all sources, analyze it in depth, and apply the results to build stronger customer relationships. CRM integrates everything that a company's sales, service, and marketing teams know about individual customers to provide a 360-degree view of the customer relationship.

CRM analysts develop *big data warehouses* and use sophisticated *data mining* techniques to understand customer data. A data warehouse is a company-wide electronic database of finely detailed customer information that needs to be sifted through for insights. The purpose of a data warehouse is not just to gather information, but to pull it together into a central, accessible location. Then, once the data warehouse brings the data together, the company uses high-powered data mining techniques to sift through the mounds of data and dig out interesting findings relevant to creating customer value.

Effective use of big data can lead to marketing opportunities. **Real Marketing 4.2** discusses the use of big data to enhance customer experience.

CRM – SAS customer intelligence software helps companies keep a profitable, loyal customer base by leveraging customer information and developing targeted, personalized responses to customer needs.

By using CRM to understand customers better, companies can provide higher levels of customer service and develop deeper customer relationships. They can use big data and CRM to pinpoint high-value customers, target them more effectively, cross-sell the company's products, and create offers tailored to specific customer requirements.

CRM and big data benefits don't come without cost or risk, either in collecting the original customer data or maintaining and mining it (see **Figure 4.5**). The most common CRM mistake is to view CRM only as a technology and software solution. But technology alone cannot build profitable customer relationships. Instead, CRM is just one part of an effective overall *customer relationship management strategy*. "Focus on the *R*," advises an expert. "Remember, a relationship is what CRM is all about."[19]

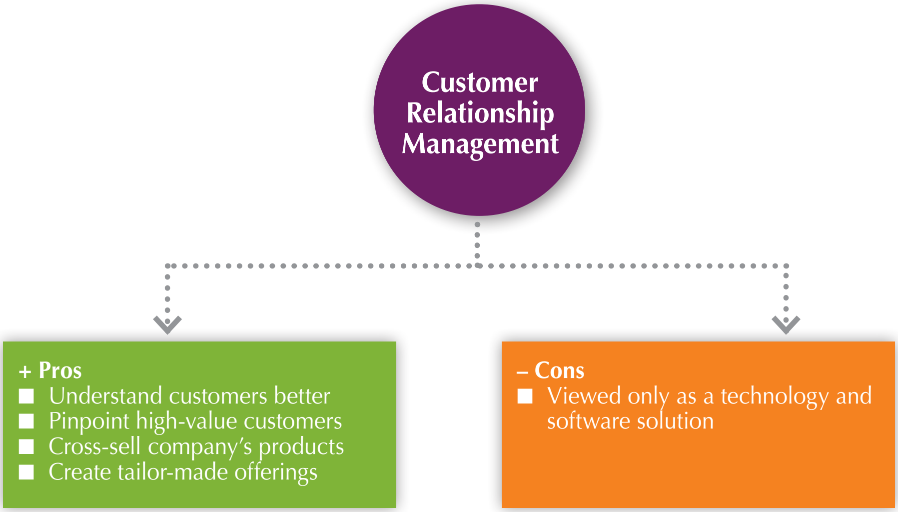


FIGURE 4.5
Pros and cons of customer relationship management

Distributing and Using Marketing Information

Marketing information has no value until it is used to make better marketing decisions. Thus, the marketing information system must make the information readily available to the managers and others who make marketing decisions or deal with customers. In some cases, this means providing managers with regular performance reports, intelligence updates, and reports on the results of research studies.

Real Marketing 4.2

Using Big Data to Amplify your Customer Experience

The profusion of smartphones and tablets in recent years has changed the retail landscape, contributing to an ongoing shift in the balance of power firmly towards the hands of the customer. Armed with a relatively inexpensive mobile device, consumers have instant access to facts, opinions, and reviews and can compare prices on just about anything they might be interested in buying – be it from their local corner store or an online retailer operating out of giant warehouses on the other side of the world. The combination of mobile device and data plan effectively gives customers a "Big Data license," bringing ready access to a wealth of product and retail information.

One survey in the United States, for example, found that 59 percent of consumers said they regularly use their smartphones while shopping in retail stores to compare prices for the same or similar products. But of course it's not only prices that can influence purchase choices. Having a "Big Data license" also allows customers access to a broad swath of other information including:

- Social media sentiments about the product in question
- Rumors of upcoming versions
- Friends' views on the items
- Recent celebrity endorsements
- How a specific the store's sales staff treats people
- Pros and cons of competitor or alternative products

With this depth of information at their fingertips, customers are now in a stronger position to know more about specific products than the salespeople in the store.

Selling Better

One survey earlier found that nearly half of consumers in the 18–49 age bracket felt they could locate product information more readily and reliably using their mobile device than asking a store associate for assistance.

With so much data-driven power in the hands of customers, the obvious question then is where does this leave the salesperson? Do they have the right information to sell their products to the customers better? And, if they don't, how do they go about getting it? Given the volume and value of customer information offered by big data, the salesperson should also know all the details about customers as they walk through the door.

Instead of judging by the customer's outward appearance, the sales clerk can know:

- What is the value of the customer and their purchasing power?
- Are they a repeat customer at our store, or other outlets? If so, what do they normally like?
- Who are your customers' friends and influencers? What products are their friends interested in? What have they bought previously?
- What did they tweet on Twitter, post on Facebook or Instagram about before, during, or after shopping at your store?
- Do they normally shop at a competitor and is this a possible conversion opportunity?
- What country do they come from and what is their preferred language?

Let's take a couple of examples that offer important lessons for retailers in terms of the way they connect with their customers.

At one end, there are traditional owner-operated retailers, such as the long-running wet-market stalls common in Asia. Take for instance the Chan family-owned fresh chicken stall that has served customers for 50-plus years. They've developed a comfortable familiarity with their customers and are able to tailor their sales to specific customers.

On the other extreme, there are online mega-retailers such as Amazon.com or Singapore's Qoo10.sg, which monitor and utilize customer data very carefully, making recommendations to consumers when they return, or sending targeted, personalized emails to bring consumers back for more.

In both examples, customization has led to increased sales and service levels. The challenge for a chain operation is that the sales person is different at each store. That raises the question, can, and *should*, customer information be shared to provide personalized service?

Serve Me Better... but Don't Intrude on My Private Life

Of course, retailers with customer data need to balance building a great image with the delivery of personalized service against the risk of being seen as invasive.

Some of us are willing to spend a little extra time going to the cosmetics artist we trust, a few extra dollars to go back to that particular restaurant or travel that extra mile to that nice coffee shop that's kind of on the way home. But more often than not, there are days when your favorite make-up artist isn't in or the familiar coffee barista is on a day off, or times when you are just at a different outlet. You lose all the usual benefits, the warm welcome and most importantly, the connection and status of a regular customer.

What if this "personalized human touch" could be applied to all retail stores across all of one chain's outlets and maybe even across the world? When the service person was known to us, even a friend, we can be comfortable with the personal touch. But what about when it is someone we know we have never met before? Imagine walking into the Starbucks on the other side of town. The store assistant is able to welcome you back with a warm smile and address you by name, even though you have never set foot in the store before. And, even before you show them your Starbucks card or credit card or tell them your order, the assistant asks whether you would like your usual coffee. How would you feel? Impressed like a special guest with a special connection and a sense of familiarity? Or invaded because a perfect stranger knows your habits?

It's a fine line between the personal touch and the overly familiar, and where that line is varies enormously from person to person. It is down to the retailer to figure out if and how recognizing a regular customer in other retail outlets improves customer connections.

Getting Started

Nothing mentioned so far requires a sophisticated algorithm. What retailers can start with is basic blocking and tackling, a big-data capable device in the hands of the sales team with fast visual answers about the customer in front of them. There also needs to be a new sales engagement process to use the facts to enhance the customer experience.

Consider setting goals to capture real, observed facts recorded in basic human terms that are easy to understand. Set rules on how to engage the customer without offending them. So what do you need to deliver results?

- A vision of how well you want to know and serve your customers
- A strategic business question to focus on
- Focus, to quickly deliver monetary results as a proof of concept
- A fast visualization tool like *Qlikview* to translate Big Data into actionable intelligence and a database like SAP HANA to store the results in.
- A smartphone or smart tablet to access facts fast
- A team of sales people trained to act on actionable intelligence, enhancing the customer experience
- A security review to ensure customer privacy is protected
- A close attention to the human touch and careful consideration of where to draw the line.

If we, as customers, see the benefit of leveraging Big Data and Actionable Intelligence to make on-the-spot decisions and amplify our own experiences, then why don't we do the same as business leaders?

Source

Adapted from Keith Carter, "Using Big Data to Amplify your Customer Experience," *Think Business,* 2 September 2013. Partially reproduced with permission of Think Business @ NUS Business School, National University of Singapore (http://thinkbusiness.nus.edu) Copyright NUS Business School.

But marketing managers may also need non-routine information for special situations and on-the-spot decisions. For example, a sales manager having trouble with a large customer order may want a summary of the accounts of sales and profitability over the past year. Or a retail store manager who has run out of a best-selling product may want to know the current inventory levels in the chain's other stores. Increasingly, therefore, information distribution involves entering information into databases and making it available in a timely, user-friendly way.

Many firms use a company *intranet* to facilitate this process. The intranet provides ready access to research information, stored reports, shared work documents, contact information for employees and other stakeholders, and more. For example, some firms are able to integrate incoming customer service calls with up-to-date database information about customers' background and past purchases. By accessing this information on the intranet while speaking with the customer, their service representatives can get a well-rounded picture of each customer.

In addition, companies are increasingly allowing key customers and value-network members to access account, product, and other data on demand through *extranets*. Suppliers, customers, resellers, and other select network members may access a company's extranet to update their accounts, arrange purchases, and check orders against inventories to improve customer service.

Hong Kong's TAL Apparel has comprehensive electronic linkages with its major clients like JC Penny (JCP). It receives orders directly from each JCP store and has an automated system for collecting goods to meet orders received. For orders that cannot be filled from inventory, priority production orders are generated. TAL then packages goods individually for each JCP outlet and notifies JCP of the packing and shipping information. Both companies have access to each other's information systems to assist in demand planning. TAL also manages JCP's stores' inventories by analyzing their point-of-sale data.[20]

› Using extranet for better customer service – TAL Apparel uses its comprehensive extranet to receive direct orders from clients like JC Penny and to generate priority production orders if inventory is insufficient. (www.talgroup.com)

Today's marketing managers can gain direct access to the information system at any time and from virtually any location. They can tap into the system while working at a home office, from a hotel room, or from the local Starbucks through a wireless network. Such systems allow managers to get the information they need directly and quickly, and to tailor it to their own needs.

Other Marketing Information Considerations

This section discusses marketing information in two special contexts: marketing research in small businesses and non-profit organizations, and international marketing research. Finally, we look at public policy and ethics issues in marketing research.

Marketing Research in Small Businesses and Non-Profit Organizations

› Informal observational research – Observing vehicle and pedestrian traffic can help retailers to determine a shop's new location.

Just like larger firms, small organizations need market information. Start-up businesses need information about their industries, competitors, potential customers, and reactions to new market offers. Existing small businesses must track changes in customer needs and wants, reactions to new products, and changes in the competitive environment.

Managers of small businesses and non-profit organizations often think that marketing research can be done only by experts in large companies with big research budgets. Although large-scale research studies are beyond the budgets of most small businesses, many of the marketing research techniques discussed in this chapter also can be used by smaller organizations in a less formal manner and at little or no expense.

Managers of small businesses and non-profit organizations can obtain good marketing information simply by *observing* things around them. For example, retailers can evaluate new locations by observing vehicle and pedestrian traffic. They can monitor competitor advertising by collecting ads from local media. They can evaluate their customer mix by recording how many and what kinds of customers shop in the store at different times. In addition, many small-business managers routinely visit their rivals and socialize with competitors to gain insights.

Managers can conduct informal *surveys* using small convenience samples. The director of an art museum can learn what patrons think about new exhibits by conducting informal focus groups—inviting small groups to lunch and having discussions on topics of interest. Retail salespeople can talk with customers visiting the store, while hospital administrators can interview patients. Restaurant managers might make random phone calls during slack hours to interview consumers about where they eat out and what they think of the various restaurants in the area.

Managers also can conduct their own simple *experiments*. For example, by changing the themes in regular fundraising mailings and watching the results, a non-profit manager can find out much about which marketing strategies work best. By varying newspaper advertisements, a store manager can learn the effects of ad size and position, price coupons, and media used.

Small organizations can obtain most of the secondary data available to large businesses. The business sections at local libraries can be a good source of information. Local newspapers often provide information on local shoppers and their buying patterns. Finally, small businesses can collect a considerable amount of information at very little cost on the Internet. They can scour competitor and customer Web sites and use Internet search engines to research specific companies and issues.

❯ Some of the largest research services firms have large international organizations. The Nielsen Company has offices in more than 100 countries.

International Marketing Research

International marketing researchers follow the same steps as domestic researchers, from defining the research problem and developing a research plan to interpreting and reporting the results. However, these researchers often face more and different problems. Whereas domestic researchers deal with fairly homogenous markets within a single country, international researchers deal with diverse markets in many different countries. These markets often vary greatly in their levels of economic development, cultures and customs, and buying patterns.

In many foreign markets, the international researcher may have a difficult time finding good secondary data. Whereas U.S. marketing researchers can obtain reliable secondary data from dozens of domestic research services, many countries have almost no research services at all. For example, secondary data on less economically developed Asian countries is non-existent, unreliable, or very costly to collect. Many Asian countries estimate their population by asking local authorities to estimate local population; they will get pure guesses or just extrapolations of past numbers. China relies on birth registration records for population sizes. However, in rural areas, many families have several children and do not register their younger children with the population census.

❯ **Secondary data from Asia** – Population figures are often inaccurate in less economically developed Asian countries, where children are not always registered with the population census.

Because of the scarcity of good secondary data, international researchers often must collect their own primary data. Yet collection of primary data is also saddled with problems. For example, they may find it difficult simply to develop good samples in emerging Asian markets. Although researchers in developed countries can use current telephone directories, census tract data, and any of several sources of socioeconomic data to construct samples, such information is largely lacking in developing countries. Survey research also suffers from a lack of sampling lists and few or unqualified interviewers.

Researchers must be aware of the cultural variations in Asian countries. For example, it may be decided that the wife be interviewed. However, in some Muslim countries, men have several wives. Which one is to be interviewed? The Japanese desire not to contradict makes for more "yea-saying" and upward social bias than in a Western culture.

Language is the most obvious challenge. For example, questionnaires must be prepared in one language and then translated into the languages of each country being researched. Responses then must be translated back into the original language for analysis and interpretation. This adds to research costs and increases the risks of error. Translating a questionnaire is anything but easy. Many idioms, phrases, and statements mean different things in different cultures.

Consumers in different countries also vary in their attitudes toward marketing research. People in one country may be very willing to respond; in other countries, non-response can be a major problem. Customs in some countries may prohibit people from talking with strangers. In certain cultures, research questions often are considered too personal. For example, in most Muslim countries, mixed-gender focus groups are taboo, as is videotaping female-only focus groups.

Even when respondents are *willing* to respond, they may not be *able* to because of high functional illiteracy rates. And middle-class people in developing countries may make false claims in order to appear well-off. For example, in a study of tea consumption in India, over 70 percent of middle-income respondents claimed that they used one of several national brands. However, the researchers had good reason to doubt these results—more than 60 percent of the tea sold in India is unbranded generic tea.

› Questionnaires need to be translated and tested that the meanings are retained.

Moreover, reaching respondents is often not so easy in less developed Asian markets. The researcher cannot send a mailed questionnaire because of low population literacy or poor postal services; and telephone interviews are not feasible where telephone ownership or service is lacking. This means that researchers must rely primarily on personal interviewing, focus group interviewing, and observational research to arrive at a fair picture of the marketplace. While they can gain a lot of insight into the market from these methods, they cannot know how representative the findings are.

Asian countries also vary in their research capabilities. Hong Kong, India, Japan, the Philippines, and Singapore have fairly advanced research industries, while those in China and Indonesia are more limited though improving. Some of the largest international research services do operate in many countries. For example, The Nielsen Company has offices in more than 100 countries.

Despite these problems, the growth of international marketing has resulted in a rapid increase in the use of international marketing research. Global companies have little choice but to conduct such research. Although the costs and problems associated with international research may be high, the costs of not doing it—missed opportunities and mistakes—might be even higher. Once recognized, many of the problems associated with international marketing research can be overcome or avoided.

Public Policy and Ethics in Marketing Research

Most marketing research benefits both the sponsoring company and its consumers. However, the misuse of marketing research can also harm or annoy consumers. Two major public policy and ethics issues in marketing research are intrusions on consumer privacy and the misuse of research findings.

Intrusions on Consumer Privacy

Some consumers fear that researchers might use sophisticated techniques to probe their deepest feelings and then use this knowledge to manipulate their buying. Or they worry that marketers are building huge databases full of personal information about them.[21]

There are no easy answers when it comes to marketing research and privacy. For example, is it a good or bad thing that marketers track and analyze consumers' Web clicks and target ads to individuals based on their browsing and social networking behavior? Similarly, should we applaud or resent companies that monitor consumer discussions on YouTube, Facebook, Twitter, or other public social networks in an effort to be more responsive? Some disconcerted consumers might see it as an intrusion on their privacy.

Consumers may also have been taken in by previous "research surveys" that actually turned out to be attempts to sell them something. Still other consumers confuse legitimate marketing research studies with telemarketing efforts and say "no" before the interviewer can even begin. Most, however, simply resent the intrusion. They dislike mail, telephone, or Web surveys that are too long or too personal or that interrupt them at inconvenient times.

In the end, if researchers provide value in exchange for information, customers will gladly provide it. For example, Amazon.com's customers may not mind if the firm builds a database of products they buy to provide future product recommendations. This saves time and provides value. The best approach is for researchers to ask only for the information they need, to use it responsibly to provide customer value, and to avoid sharing information without the customer's permission.

Misuse of Research Findings

Some research studies appear to be little more than vehicles for pitching the sponsor's products. In some cases, the research surveys appear to have been designed just to produce the intended effect. Few advertisers openly rig their research designs or blatantly misrepresent the findings; most abuses tend to be subtle "stretches." Consider the following example:

> **Chrysler** contends that Americans overwhelmingly prefer Chrysler to Toyota after test-driving both. Its study, however, included just 100 people in each of two tests. More importantly, none of the people surveyed owned a foreign car brand, so they appear to be favorably predisposed to U.S. brands.[22]

Thus, subtle manipulations of the study's sample or the choice of wording of questions can greatly affect the conclusions reached. Companies must accept responsibility for policing the conduct and reporting of their own marketing research to protect consumers' best interests and their own.

Reviewing Objectives and Key Terms

To create value for customers and build meaningful relationships with them, marketers must first gain fresh, deep insights into what customers need and want. Such insights come from good marketing information. As a result of the recent explosion of marketing technology, companies can now obtain great quantities of information, sometimes even too much. The challenge is to transform today's vast volume of consumer information into actionable customer and market insights.

OBJECTIVE 1 Explain the importance of information to the company and its understanding of the marketplace. (pp. 103–105)

The marketing process starts with a complete understanding of the marketplace and consumer needs and wants. Thus, the company needs sound information in order to produce superior value and satisfaction for customers. The company also requires information on competitors, resellers, and other actors and forces in the marketplace. Increasingly, marketers are viewing information not only as an input for making better decisions but also as an important strategic asset and marketing tool.

OBJECTIVE 2 Define the marketing information system and discuss its parts. (pp. 105–108)

The *marketing information system (MIS)* consists of people, equipment, and procedures to gather, sort, analyze, evaluate, and distribute needed, timely, and accurate information to marketing decision makers. A well-designed information system begins and ends with users.

The MIS first *assesses information needs*. The MIS primarily serves the company's marketing and other managers, but it may also provide information to external partners. Then, the MIS *develops information* from internal databases, marketing intelligence activities, and marketing research. *Internal databases* provide information on the company's own operations and departments. Such data can be obtained quickly and cheaply but often needs to be adapted for marketing decisions. *Marketing intelligence* activities supply everyday information about developments in the external marketing environment. *Market research* consists of collecting information relevant to a specific marketing problem faced by the company. Lastly, the MIS *distributes information* gathered from these sources to the right managers in the right form and at the right time.

OBJECTIVE 3 Outline the steps in the marketing research process. (pp. 109–122)

The first step in the marketing research process involves *defining the problem and setting the research objectives*, which may be exploratory, descriptive, or causal research. The second step consists of *developing a research plan* for collecting data from primary and secondary sources. The third step calls for *implementing the marketing research plan* by gathering, processing, and analyzing the information. The fourth step consists of *interpreting and reporting the findings*. Additional information analysis helps marketing managers apply the information and provides them with sophisticated statistical procedures and models from which to develop more rigorous findings.

Both *internal* and *external* secondary data sources often provide information more quickly and at a lower cost than primary data sources, and they can sometimes yield information that a company cannot collect by itself. However, needed information might not exist in secondary sources. Researchers must also evaluate secondary information to ensure that it is *relevant*, *accurate*, *current*, and *impartial*. Primary research must also be evaluated for these features. Each primary data collection method—*observational*, *survey*, and *experimental*—has its own advantages and disadvantages. Each of the various primary research contact methods—mail, telephone, personal interview, and online—also has its own advantages and drawbacks. Similarly, each contact method has its pluses and minuses.

OBJECTIVE 4 Explain how companies analyze and distribute marketing information. (pp. 123–127)

Information gathered in internal databases and through marketing intelligence and marketing research usually requires more analysis. This may include advanced statistical analysis or the application of analytical models that will help marketers make better decisions. To analyze individual customer data, many companies have now acquired or developed special software and analysis techniques, called *customer relationship management (CRM)*, that integrate, analyze, and apply the mountains of individual customer data contained in their databases.

Marketing information has no value until it is used to make better marketing decisions. Thus, the marketing information system must make the information available to the managers and others who make marketing decisions or deal with customers. In some cases, this means providing regular reports and updates; in other cases, it means making non-routine information available for special situations and on-the-spot decisions. Many firms use company intranets and extranets to facilitate this process. Thanks to modern technology, today's marketing managers can gain direct access to the information system at any time and from virtually any location.

OBJECTIVE 5 Discuss the special issues some marketing researchers face, including public policy and ethics issues. (pp. 127–130)

Some marketers face special marketing research situations, such as those conducting research in small-business, non-profit, or international situations. Marketing research can be conducted effectively by small businesses and non-profit organizations with limited budgets. International marketing researchers follow the same steps as domestic researchers but often face more and different problems. All organizations need to respond responsibly to major public policy and ethical issues surrounding marketing research, including issues of intrusions on consumer privacy and misuse of research findings.

Key Terms

OBJECTIVE 1

Big data (p 104)
Customer insights (p 104)
Marketing information system (MIS) (p 105)

OBJECTIVE 2

Internal databases (p 106)
Competitive marketing intelligence (p 107)

OBJECTIVE 3

Marketing research (p 109)
Exploratory research (p 109)
Descriptive research (p 109)
Causal research (p 109)
Secondary data (p 110)
Primary data (p 110)
Online database (p 110)
Observational research (p 112)
Ethnographic research (p 112)
Survey research (p 113)
Experimental research (p 113)
Focus group interviewing (p 116)
Online marketing research (p 116)
Online focus groups (p 117)
Sample (p 119)

OBJECTIVE 4

Customer relationship management (CRM) (p 123)

Discussing the Concepts

1. Discuss the value of marketing research and marketing information and how that value is attained.
2. Which information is more valuable to marketers—information from internal databases, marketing intelligence, or marketing research? How do these information sources differ?
3. Explain the differences between primary and secondary data. When is each appropriate and how are they collected?
4. What are the advantages of Web-based survey research over traditional survey research?
5. How does customer relationship management (CRM) help companies develop customer insights and deliver superior customer value?
6. What are the similarities and differences when conducting research in another country versus the domestic market?

Applying the Concepts

1. Visit www.zoomerang.com or another free online Web survey site. Using the tools at the site, design a six-question survey on the bookstore in your university. Send the survey to 10 friends and look at the results. What did you think of the online survey method?
2. Assume you are interested in opening a tuition center for children aged eight to 12 years old. You are unsure whether there is enough demand to be profitable. Discuss what information you need before making this decision. Further, assume you plan to conduct a survey to better estimate demand. Describe how you would collect the data.
3. One source of competitive marketing intelligence is a company's Web site. Visit Apple's Web site (www.apple.com) to search for information that may be useful to its competition. Write a brief report of what you found.

Focus on Technology

Picture yourself with wires hooked up to your head or entering a magnetic tube that can see inside your brain. You must be undergoing some medical test, right? Think again—it's marketing research! Marketing research is becoming more like science fiction with a new field called neuromarketing, which uses technologies such as magnetic resonance imaging (MRI) to peer into consumers' brains in an attempt to understand cognitive and affective responses to marketing stimuli. One company, Thinkingcraft, uses a methodology called "neurographix" to help marketers develop messages that fit the way customers think. Omnicon, the advertising agency, uses "neuroplanning" to determine the appropriate media mix for a client. One study found that consumers preferred Pepsi over Coke in blind taste tests but preferred Coke when they could see the names of the brands tasted. Different areas of the brain were activated when they knew the brand compared to when they did not, suggesting that what marketers make us believe is more persuasive than what our own taste buds tell us.

1. Learn more about neuromarketing and discuss another example of its application.
   (AACSB: Communication; Technology)
2. Critics have raised concerns over the usefulness and ethics of this type of marketing research. Discuss both sides of the debate surrounding this methodology.
   (AACSB: Communication; Ethical Reasoning)

Focus on Ethics

Marketing information helps develop insights into the needs of customers, and gathering competitive intelligence (CI) data supplies part of this information. CI has blossomed into a full-fledged industry, with most major companies establishing CI units. But not all CI gathering is ethical or legal—even at P&G. In 1943, a P&G employee bribed a Lever Brothers (now Unilever) employee to obtain bars of Swan soap, which was then under development, to improve its Ivory brand. P&G settled the case by paying Unilever almost $6 million (about $60 million in today's context) for patent infringement—a small price to pay given the market success of Ivory. In 2001, P&G once again paid a $10 million settlement to Unilever for a case that involved a contractor rummaging through a trash dumpster outside Unilever's office, an infraction that was actually reported by P&G itself. More recently, the U.S. Attorney General's office stopped a corporate espionage lawsuit between Starwood Hotels and Hilton Hotels because it is already pursuing criminal charges against Hilton and two executives it hired away from Starwood. The U.S. Secret Service estimates that employees commit 75 percent of intellectual property theft. The threat is not just internal. The FBI is tracking approximately 20 countries actively spying on U.S. companies.

1. Find another example of corporate espionage and write a brief report on it. Did the guilty party pay restitution or serve prison time? Discuss what punishments, if any, should be levied in cases of corporate espionage.
   (AACSB: Communication; Ethical Reasoning)
2. How can businesses protect themselves from corporate espionage?
   (AACSB: Communication; Reflective Thinking)

Marketing & the Economy

Harrah's Entertainment

Over the past decade, Harrah's Entertainment has honed its CRM skills to become bigger and more profitable than any other company in the gaming industry. The foundation of its success is Total Rewards, a loyalty program that collects a mother lode of customer information and mines it to identify important customers and meet their specific needs through a personalized experience. But since the global recession in 2008–2010, Harrah's has seen its flow of customers slow to a trickle. Not only are customers visiting less often, but the normally $50 gamer is now playing only $25. As a result, Harrah's revenues have slid for the past two years. Harrah's isn't alone; the rest of the industry is also suffering as more people save their money or spend it on necessities rather than entertainment. Harrah's CRM efforts have always focused on delighting every customer. The company claims that customer spending increases 24 percent with a happy experience. But even Harrah's uncanny ability to predict which customers will be motivated by show tickets, room upgrades, or free chips has not made it immune to the woes of an economic downturn.

1. Is the dip in Harrah's business unavoidable given the economic conditions or can Harrah's find new ways to connect with customers? What would you recommend?
2. In difficult economic times, is it responsible of Harrah's to try to get people to spend more money on gambling?

Marketing by the Numbers

Have you ever been disappointed because a television network cancelled one of your favorite television shows because of "low ratings"? The network didn't ask your opinion, did it? It probably didn't ask any of your friends either. That's because estimates of television audience sizes are based on research done by The Nielsen Company, which uses a sample of 9,000 households out of the more than 113 million households in the United States to determine national ratings for television programs. That doesn't seem like enough, does it? As it turns out, statistically, it's significantly more than enough.

1. Go to http://www.surveysystem.com/sscalc.htm to determine the appropriate sample size for a population of 113 million households. Assuming a confidence interval of 5, how large should the sample of households be if a 95 percent confidence level is desired? How large for a 99 percent confidence level? Briefly explain what is meant by *confidence interval* and *confidence level*. (AACSB: Communication; Use of IT; Analytical Reasoning)
2. What sample sizes are necessary at population sizes of 1 billion, 10,000, and 100 with a confidence interval of 5 and a 95 percent confidence level? Explain the effect population size has on sample size. (AACSB: Communication; Use of IT; Analytical Reasoning)

Video Case

Radian6

As more and more consumers converse through digital media, companies are struggling to figure out how to "listen in" on the conversations. Traditional marketing research methods can't sift through the seemingly infinite number of words flying around cyberspace at any given moment. But one company is helping marketers get a handle on "word-of-Web" communication. Radian6 specializes in monitoring social media, tracking Web sites ranging from Facebook to Flickr. Radian6's unique software opens a door to an entirely different kind of research. Instead of using questionnaires, interviews, or focus groups, Radian6 scans online social media for whatever combination of keywords a marketer might specify. This gives companies valuable insights into what consumers are saying about their products and brands.

After viewing the video featuring Radian6, answer the following questions.

1. What benefits does Radian6 provide to marketers over more traditional market research methods? What shortcomings are there?
2. Classify Radian6's software with respect to research approaches, contact methods, sampling plan, and research instruments.
3. How is Radian6 helping companies develop stronger relationships with customers?

Company Case

HSBC: Banking on Understanding Customers

The two elements that give a firm a head start over its competitors are understanding consumers and delivering better service, which help improve customer satisfaction and loyalty. These characteristics also allow the firm to maintain that competitive advantage. The Hongkong and Shanghai Banking Corporation Limited ("HSBC") is a leading provider of financial services worldwide, with branches across 71 countries and territories in the Asia-Pacific region, Europe, the Middle East, Africa, and the Americas.

As a multinational corporation, HSBC competes not only with local banks but also with foreign ones as well. While local banks have home-ground advantage with more intimate knowledge of the market, foreign banks tend to have a strong capital base and an international reputable name. Many Asian countries have also liberalized their banking industry, making competition more intense.

HSBC periodically conducts various local surveys to better understand consumer patterns. There are questionnaires used by the corporation, some available offline and others accessible online. For the Asia-Pacific region, there are at least two online surveys that are made available to consumers. The first, the Customer Service Hotline Customer Satisfaction Survey, asks consumers questions like the reason why they called the bank, their satisfaction with the bank's responses to their queries, whether they were able to complete what they had wanted to, and so on (see https://www.apps.asiapacific.hsbc.com/1/2/vnm2/lead/general/customer_service_hotline_survey?WABFormEntryCommand=cmd_init).

The second, HSBC Express Banking Channels Customer Satisfaction Questionnaire, asks consumers to rate the services offered by the bank (see https://bireysel.hsbc.com.tr/ENG/transactions/SURVCH_01.asp). The questions the bank puts forward include how the consumer would most likely describe their views about the bank's customer service representatives. This question is followed by different aspects of the bank's customer services like time taken to answer calls, the representative's communication skills and whether or not it was a positive approach. Each element is accompanied by a 3-point scale rating that the consumer must select—"1" implying that the customer was not satisfied, "2" implying that they were satisfied, and "3" implying that they were very satisfied. This survey covers three broad areas including telephone banking, Internet banking, and ATM banking. It also addresses consumers' banking preferences.

Questions for Discussion

1. Go to the Web sites as indicated under Sources below and analyze both HSBC's questionnaires. What information is each questionnaire trying to gather? What are the research objectives?
2. What recommendations would you make to HSBC with regard to contact method for collecting market data using these questionnaires?
3. Which of these two questionnaires is better designed? Why? How would you improve on each?
4. In addition to or instead of online survey, what other means can HSBC use to gather consumer feedback?

Sources

"Customer Service Hotline Customer Satisfaction Survey," HSBC Bank (Vietnam) Ltd., 2016, https://www.apps.asiapacific.hsbc.com/1/2/vnm2/lead/general/customer_service_hotline_survey? WABFormEntryCommand=cmd_init; and "HSBC Express Banking Channels Customer Satisfaction Questionnaire," HSBC bank, https://bireysel.hsbc.com.tr/ENG/transactions/ SURVCH_01.asp.

Objective Outline

OBJECTIVE 1

Define the consumer market and construct a simple model of consumer buyer behavior.

Model of Consumer Behavior (139–140)

OBJECTIVE 2

Name the four major factors that influence consumer buyer behavior.

Characteristics Affecting Consumer Behavior (140–155)

OBJECTIVE 3

List and define the major types of buying decision behavior and the stages in the buyer decision process.

Types of Buying Decision Behavior (155–157)

The Buyer Decision Process (158–161)

OBJECTIVE 4

Describe the adoption and diffusion process for new products.

The Buyer Decision Process for New Products (161–173)

Chapter

5

Consumer Markets and Consumer Buyer Behavior

Previewing the Concepts

In the previous chapter, you studied how marketers obtain, analyze, and use information to understand the marketplace and to assess marketing programs. In this and the next chapter, we'll continue with a closer look at the most important element of the marketplace—customers. The aim of marketing is to affect how customers think about and behave toward the organization and its market offerings. In this chapter, we will look at *final consumer* buying influences and processes. You'll see that understanding buyer behavior is an essential but very difficult task.

To get a better sense of the importance of understanding consumer behavior, let's look first at Hello Kitty, the best-known of the fictional characters marketed by Japanese company Sanrio. Who buys Hello Kitty merchandise? What moves them?

Hello Kitty: Appealing to Consumers

Hello Kitty was born on 1 November 1974 in suburban Cambridge, England. A bright and kind-hearted kitten with no mouth, Kitty now lives with her twin sister Mimmy in London. Weighing the equivalent of three apples, Kitty is good at baking cookies, making pancakes for her friends, *origami*, shopping for and with friends, buying things, and tennis. Her hobbies include traveling, music, reading, making new friends, and going on adventures. Her friends include a rabbit, a sheep, a raccoon, and a mouse. Kitty's significant other is Dear Daniel.

Hello Kitty is the best-known of the many fictional characters marketed by Japanese company Sanrio. Kitty's creator, Sanrio founder and President Shintaro Tsuji, researched his son's elementary-school friends to determine which animal they liked most. The dog was the top choice followed by the cat. Since the dog market was already occupied by Snoopy, Tsuji branded a cat, choosing a simple greeting, Hello Kitty, as its name.

The original Kitty first appeared on a small purse in 1974. Initially targeting Japanese pre-adolescent females, Hello Kitty is now a $1.8 billion global marketing phenomenon, appealing to kids, teens, and women who like the sweet, cute, and feminine image. It is estimated that Sanrio has licensed the feline moniker to between 12,000 to 15,000 products. One can virtually live in a Hello Kitty world: Wake up in a Hello Kitty bedroom, have breakfast made with Hello Kitty appliances, work from a Hello Kitty computer on a Hello Kitty desk, relax in front of a Hello Kitty TV set, ride a Hello Kitty scooter to the beach, and ride a Hello Kitty surfboard in a Hello Kitty wetsuit. There are many stores selling only Hello Kitty merchandise. The little cat has been featured on a MasterCard debit card to teach young girls how to shop

> One can virtually live in a Hello Kitty world: Wake up in a Hello Kitty bedroom, have breakfast made with Hello Kitty appliances, work from a Hello Kitty computer on a Hello Kitty desk, relax in front of a Hello Kitty TV set, ride a Hello Kitty scooter to the beach, and ride a Hello Kitty surfboard in a Hello Kitty wetsuit.

Nowadays, Hello Kitty fans can choose to customize anything they want, in Hello Kitty style—including car registration plate numbers.

and use a debit card. There are also two Hello Kitty theme parks, Puroland and Harmonyland.

Moreover, Hello Kitty has been licensed to other marketers for their promotions. Notably, McDonald's launched a series of Kitty collectibles in several Asian markets in 2000. For example, Singapore customers could purchase the dolls when they bought Extra Value Meals. Demand was unprecedented. Some 250,000 people stood in endless lines for the dolls. Fights broke out and police were brought in to contain the crowd. Thousands of hamburgers were reportedly discarded uneaten by consumers more intent on acquiring the dolls.

Hello Kitty's global appeal is underscored by her being selected as child ambassador for UNICEF in the United States since 1983, and in Japan since 1984. Why this appeal? Some argue this is because Hello Kitty is Western, and she sells in Japan. Others assert that it is because she is Japanese, and she sells in the West. When introduced in Japan, Hello Kitty was initially positioned as a foreign product, a cat living in London. Says Kitty designer Yuko Yamaguchi, "When Kitty-chan was born, it was rare in those days for Japanese to go abroad. So people yearned for products with English associations. There was an idea that if Kitty-chan spoke English, she would be very fashionable."

The long-drawn Japanese recession also provided impetus for Hello Kitty. Remarked one focus group researcher, "In a recession, you think back to when you were young. Instead of thinking about the grim economic situation, you buy a Hello Kitty refrigerator." Sanrio ascribes Kitty's popularity with high-school girls, young female office workers, and housewives to their need to feel nostalgic during an age of uncertainty. Kitty's soft, round, toothless, clawless, and mute character also inspires a certain protectiveness and affection among women.

However, as the Japanese market became more mature, and Hello Kitty expanded to Western markets, some adaptations were necessary. For example, the American market does not share the same value of cuteness as the Japanese. This meant designing two Kittys. Recalls Yamaguchi, "Purple and pink were very strong colors in the United States. Blue, yellow, and red were taboo. There were also motifs that were taboo in the United States. When there is a rainstorm, Kitty-chan has an umbrella and a flower, and beside Kitty-chan is a snail. In the United States, that was not accepted, and there was a request to eliminate the snail."

Hello Kitty's allure may also draw from the trend towards things Japanese. David McCaughan, Asia-Pacific Consumer Insights Director for McCann Erickson, notes that Tokyo is one of the world's hippest places. Sara Howard, houseware buyer for Urban Outfitters, remarked, "Japanese style is unique, decorative, and fun, and has become a fashion statement. Girls go for the cutest Hello Kitty characters, emblazoning everything from books to mobile phone holders …"

Trendspotter Faith Popcorn explains that Hello Kitty's appeal to corporate women is a "wink on pink. It's like saying women can't be contained. We can wear monochromatic Armani suits and whip out Hello Kitty notepads at a moment's notice." In essence, it represents girl power. One cultural reference attesting to this appears in the hit TV series *Grey's Anatomy*. When Izzy wears Hello Kitty panties in one episode, she is greeted by fellow surgical intern Meredith with, "Hello Kitty."

American celebrities have also contributed to the character's popularity. Mariah Carey, Cameron Diaz, Heidi Klum, Steven Tyler, Christina Aguilera, Carmen Electra, as well as Paris and Nicky Hilton have all been spotted with Hello Kitty merchandise. Singer Lisa Loeb, who marketed the pink Hello Kitty guitar, has admitted to being a fan and has dedicated an album to Hello Kitty called *Hello Lisa*.

Hello Kitty has also joined forces with famous Japanese singer Ayumi Hamasaki to produce products with Japanese jewelry and accessories designer Ash & Diamonds, and Panasonic. For example, the Panasonic collaboration involves a line of Lumix cameras with Hello Kitty's image and Hamasaki's insignia. It appears to be available only to Hamasaki's fan club members.

Despite Hello Kitty's success, the future is challenging for Sanrio. The threat of counterfeits is ever present in the region. Markets are maturing, and Hello Kitty may be overexposed. Asian American culture magazine *Giant Robot* once described Sanrio, with its aggressive licensing practices, as a "corporate whore." Then there is competition from Pokemon, Tamagotchi, Winnie the Pooh, and other Disney characters. Still, an inside joke among Sanrio employees is, "Our Kitty is a cat, and their Mickey is a mouse ... who's going to win is rather obvious."[1]

The Hello Kitty example shows that many factors affect consumer buyer behavior. Buyer behavior is never simple, yet understanding it is the essential task of marketing management. **Consumer buyer behavior** refers to the buying behavior of final consumers—individuals and households who buy goods and services for personal consumption. These final consumers combine to make up the **consumer market.** The world consumer market consists of more than 7.26 billion people with an estimated GDP of $113.7 trillion in 2015.[2] In Asia alone, there are 4.43 billion Chinese, Indians, Indonesians, Japanese, Koreans, and other ethnicities representing more than 60 percent of the world's population. Asia is also regarded as the most attractive consumer market in the world.

Such consumers vary tremendously in age, income, education level, and tastes. They also buy an incredible variety of goods and services. How these diverse consumers relate with one another and with other elements of the world around them impact their choices among various products, services, and companies. Here we examine the fascinating array of factors that affect consumer behavior.

Consumer buyer behavior
The buying behavior of final consumers—individuals and households who buy goods and services for personal consumption.

Consumer market
All the individuals and households who buy or acquire goods and services for personal consumption.

Model of Consumer Behavior

Consumers make many buying decisions every day. Marketers can study actual consumer purchases to find out what they buy, where, and how much. But learning about the *whys* of consumer buying behavior is not so easy—the answers are often locked deep within the consumer's mind.

The challenge for marketers is to understand the consumer's mind to answer the question: How do consumers respond to various marketing efforts the company might use? The starting point is the stimulus–response model of buyer behavior shown in **Figure 5.1**. This figure shows that marketing and other stimuli enter the consumer's "black box" and produce certain responses. Marketers must figure out what is in the buyer's black box.

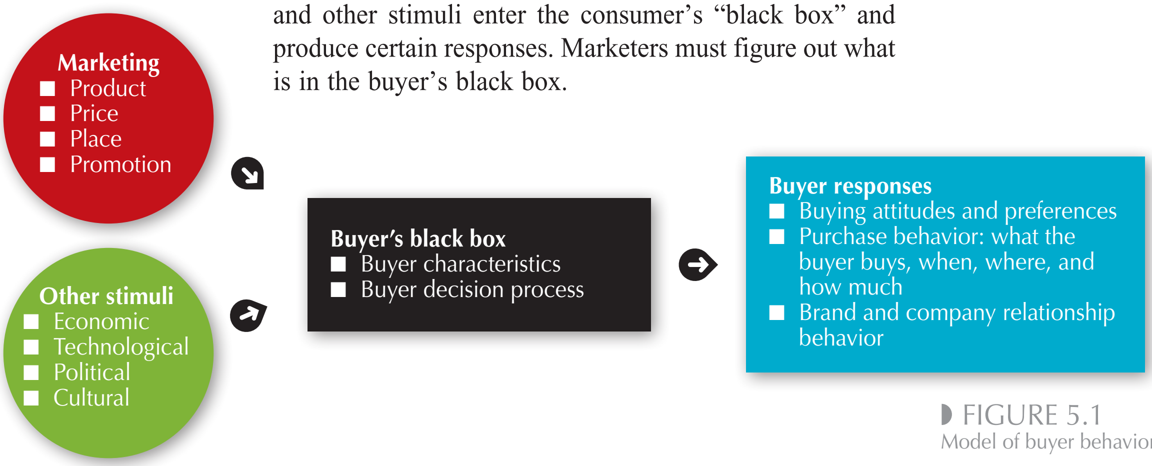


FIGURE 5.1
Model of buyer behavior

Marketing stimuli consist of the four Ps: product, price, place, and promotion. Other stimuli include major forces and events in the buyer's environment: economic, technological, political, and cultural. All these inputs enter the buyer's black box, where they are turned into a set of observable buyer responses: product choice, brand choice, dealer choice, purchase timing, and purchase amount.

The marketer wants to understand how the stimuli are changed into responses inside the consumer's black box, which has two parts. First, the buyer's characteristics influence how he or she perceives and reacts to the stimuli. Second, the buyer's decision process affects the buyer's behavior. We look first at buyer characteristics as they affect buyer behavior and then discuss the buyer decision process.

Characteristics Affecting Consumer Behavior

Consumer purchases are influenced strongly by cultural, social, personal, and psychological characteristics, as shown in **Figure 5.2**. For the most part, marketers cannot control such factors, but they must take them into account.

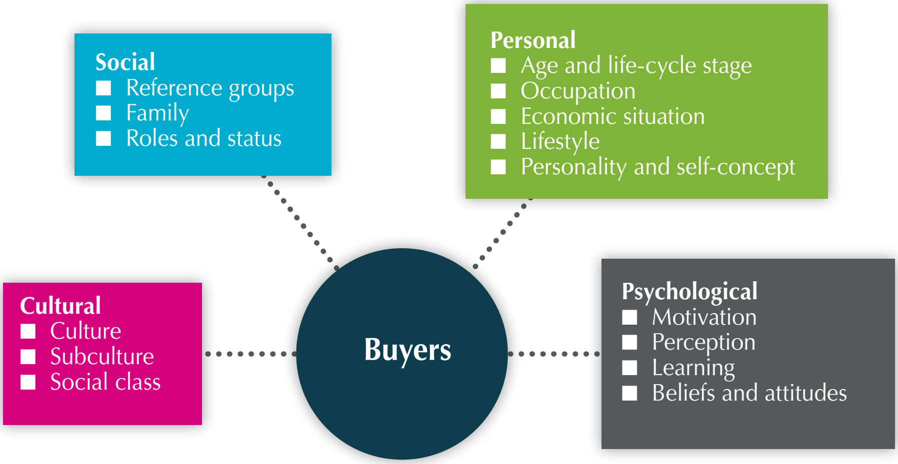


FIGURE 5.2
Factors influencing consumer behavior

Cultural Factors

Cultural factors exert a broad and deep influence on consumer behavior. The marketer needs to understand the role played by the buyer's *culture*, *subculture*, and *social class*.

Culture
The set of basic values, perceptions, wants, and behaviors learned by a member of society from family and other important institutions.

Culture

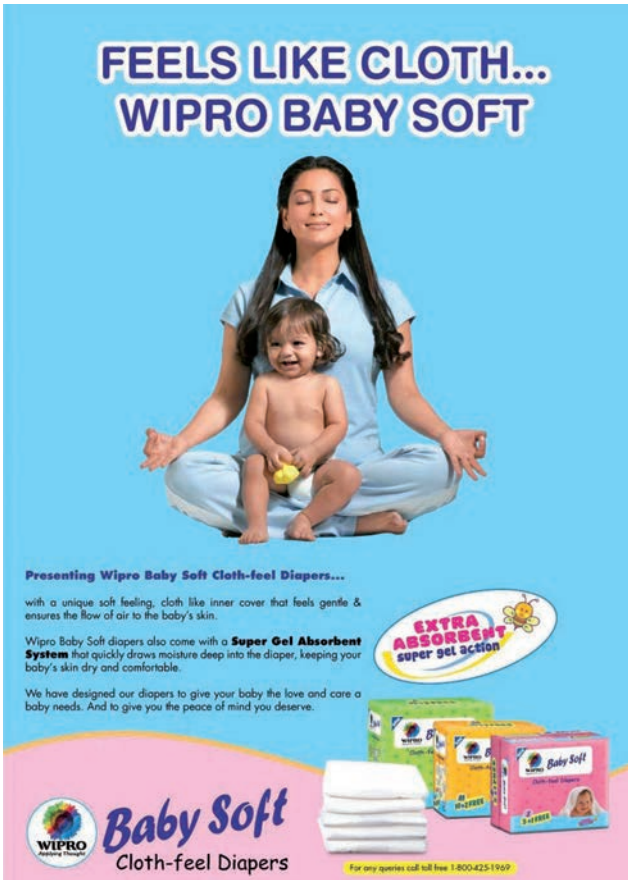
Culture is the most basic cause of a person's wants and behavior. Growing up in a society, a child learns basic values, perceptions, wants, and behaviors from the family and other important institutions. Every group or society has a culture, and cultural influences on buying behavior may vary greatly from country to country. Failure to adjust to these differences can result in ineffective marketing or embarrassing mistakes. For example, the idea of product packaging differs greatly across Asian markets. Japanese consumers pay a lot of attention to how a product is packaged. To them, a product's package is both a part of the product as well as an important proxy for its quality. Hence, in the Japanese culture, product packaging is

Culture – Product packaging in Japan is an art; items are often wrapped in decorative paper, sheer cloth, ribbons, or flowers.

usually regarded as an art. In contrast, most Chinese consumers regard a product's packaging as merely serving a protective function. They regard the extra effort and cost in packaging as unnecessary and wasteful. To them, the more a product's cost goes into a product, the more it signifies a higher price value return for their purchase.

Marketers are always trying to spot *cultural shifts* to discover new products that might be wanted. For example, the cultural shift toward a greater concern with health and fitness has created a huge industry for such services, exercise equipment and clothing, more-natural foods, and a variety of diets. Another good example is how Wipro influenced the cultural shift from using cloth to disposable diapers in India.

Wipro – In India, disposable diapers are considered a necessary evil by mothers. The biggest concern Indian mothers have is that babies are uncomfortable in diapers. This is further enhanced with the influence of grandmothers who have generally used cloth on their babies previously. Grandmothers are a major influence in Indian households with many families still living as joint families, along with grandparents. To break this cultural barrier, Wipro launched its Baby Soft diapers as "Cloth-Feel Diapers." This has reduced apprehension among consumers and improved acceptability of the Wipro Baby Soft brand. The brand talks about better comfort, better air circulation, and improved absorption; hence giving Indian mothers the peace of mind that they deserve.



Wipro introduced "cloth-feel" diapers to overcome cultural barriers towards disposable diapers where grandmothers still have a great influence over the type of diapers to use.

Subculture

A group of people with shared value systems based on common life experiences and situations.

Subculture

Each culture contains smaller **subcultures**, or groups of people with shared value systems based on common life experiences and situations. Subcultures include nationalities, religions, racial groups, and geographic regions. Many subcultures make up important market segments, and marketers often design products and marketing programs tailored to their needs.

While Japan is typically regarded as being culturally homogenous, there exist subcultures unique from the mainstream. For example, one subculture is interested in cosplay—the act of dressing up in and playing the role of one's favorite inspiring Japanese personality. Members acquire clothes to dress like gothic Lolitas, leather-jacketed Elvises, or their favorite *anime* character.

› The cosplay subculture – Japanese girls dressed as characters from their favorite *anime* in their role-playing cosplay hobby.

Similarly, although there are common cultural traditions such as *ài miàn zǐ* (爱面子)—sensitivity to face—in China, there are regional subcultures reflected in varied business practices. Beijing is China's political capital, and many Chinese say that Beijingers are pure "political animals." Shanghainese tend to treat Westerners more equally and conform to international standards more readily than people from most other parts of China. Cantonese businesspeople are usually welcoming to outsiders. Northeasterners are said to have a reputation for a "tiger-like spirit." They have a short fuse and a propensity for big and quick deals. Sichuanese are known for their honesty and sincerity. Wenzhounese are known for their business acumen.[3]

Social class

Relatively permanent and ordered divisions in a society whose members share similar values, interests, and behaviors.

Social Class

Social classes are society's relatively permanent and ordered divisions whose members share similar values, interests, and behaviors. Social class is not determined by a single factor, such as income, but is measured as a combination of occupation, income, education, wealth, and other variables. In some traditional social systems, such as India's caste system, members of different classes are designated for certain roles, making social mobility difficult.

Marketers are interested in social class because people within a given social class tend to exhibit similar buying behavior. Social classes show distinct product and brand preferences in areas such as clothing, home furnishings, leisure activities, and automobiles. India's consumers have seen lifestyle changes as they trade up the social ladder. Products like air-conditioners are now considered utility rather than luxury products. Hectic lifestyles push sales of convenience products like vacuum cleaners and microwave ovens. Companies such as Samsung and LG have expanded their offerings from televisions to other durables like MP3 players, DVD players, and mobile phones, given the rising middle class.[4]

Social Factors

A consumer's behavior is also influenced by social factors such as the consumer's *small groups*, *family*, and *social roles* and *status*.

Group

Two or more people who interact to accomplish individual or mutual goals.

Groups and Social Networks

A person's behavior is influenced by many small **groups**. Groups that have a direct influence and to which a person belongs are called membership groups. In contrast, reference groups serve as direct (face-to-face) or indirect points of comparison or reference in forming a person's attitudes or behavior. People often are influenced by reference groups to which they do not belong. For example, an aspirational group is one to which the individual wishes to belong, as when a young boy learning dance hopes to someday emulate Jay Chou or a popular K-pop group, and be a famous singer and dancer.

Marketers try to identify the reference groups of their target markets. Reference groups expose a person to new behaviors and lifestyles, influence the person's attitudes and self-concept, and create pressures to conform that may affect the person's product and brand choices. The importance of group influence varies across products and brands. It tends to be strongest when the product is visible to others whom the buyer respects.

Word-of-Mouth Influence and Buzz Marketing

Word-of-mouth influence can have a powerful impact on consumer buying behavior. The personal words and recommendations of trusted friends, associates, and other consumers tend to be more credible than those coming from commercial sources, such as advertisements or salespeople. Most word-of-mouth influence happens naturally: consumers start chatting about a brand they use or feel strongly about one way or the other. Often, however, rather than leaving it to chance, marketers can help to create positive conversations about their brands.

Marketers of brands subjected to strong group influence must figure out how to reach **opinion leaders**—people within a reference group who, because of special skills, knowledge, personality, or other characteristics, exert social influence on others. Some experts call this group *the influentials* or *leading adopters*. When these influentials speak, consumers listen. Marketers try to identify opinion leaders for their products and direct marketing efforts toward them.

Buzz marketing involves enlisting or even creating opinion leaders to serve as "brand ambassadors" who spread the word about a company's products. Many companies now create brand ambassador programs in an attempt to turn influential but everyday customers into brand evangelists.

Opinion leader
Person within a reference group who because of special skills, knowledge, personality, or other characteristics, exerts social influence on others.

Online social networks
Online social communities—blogs, social networking Web sites, or even virtual worlds—where people socialize or exchange information and opinions.

› Social networking sites such as Facebook and Flickr are highly popular, and marketers need to harness their power to build closer customer relationships.

Online Social Networks

Online social networks are online communities where people socialize or exchange information and opinions. These include blogs and message boards to social networking Web sites (Facebook and Twitter) and virtual worlds.

The Japanese write Web logs at per capita rates that are off the global charts. Despite English speakers outnumbering Japanese numbers by more than five to one, slightly more blog postings are written in Japanese (37 percent) than in English (36 percent). As much as 40 percent of Japanese blogging is done on mobile phones. Japan's conformist culture has the Japanese writing more often but shorter and more anonymously compared to Americans. Japanese bloggers shy away from politics, rarely trumpet their expertise, and are non-critical. They blog on mundane stuff: cats and flowers, bicycles and breakfast, gadgets and TV stars.[5]

Marketers are harnessing the power of these social networks and other "word-of-Web" opportunities to promote their products and build closer customer relationships. Honda in the United States launched a Facebook page titled "Everybody knows somebody who loves a Honda." It encouraged visitors to post their stories and their friends' stories about how they love their Honda. It was first supported with some online advertising. Then Honda added TV advertising. The result—Honda added over 1.2 million fans. An additional site called Love.Honda.com was then added that was linked to the Facebook page.[6]

Marketers hope to use the Internet and social networks to *interact* with consumers and become a part of their conversations and lives (see **Real Marketing 5.1**). However, marketers must be careful when tapping into online social networks. Results are difficult to measure and control. Ultimately, the users control the content. So social network marketing attempts can backfire.

Even online networking sites market themselves. For example, MySpace embarked on a drive to make its brand more prominent in India. Given India's penchant for movies, MySpace offered Black Curtain Screening as an exclusive complimentary movie-screening program for its users. It liaised with movie distributors to showcase their movies before commercial release. When MySpace users attend these screenings, they meet other MySpace users. Hence, the online social network is reinforced offline.[7]

Family

Family members can strongly influence buyer behavior. The family is the most important consumer buying organization in society, and it has been researched extensively. Marketers are interested in the roles and influence of the husband, wife, and children on the purchase of different products and services.

Husband–wife involvement varies widely by product category and by the stage in the buying process. Buying roles change with evolving consumer lifestyles. The wife has traditionally been the main purchasing agent for the family in the areas of food, household products, and clothing. But with more women holding jobs outside the home and the willingness of husbands to do more of the family's purchasing, buying roles and lifestyles have changed.

Such changes suggest that marketers in industries that have sold their products to only men or only women are now courting the opposite sex. For example, today's women account for a significant portion of technology purchases. So consumer electronics companies are increasingly designing products that are easier to use and more appealing to female buyers:

Female market—Consumer electronics engineers and designers are bringing a more feminine sensibility to products historically shaped by masculine tastes, habits, and requirements. Designs are now more "feminine and softer," rather than masculine and angular. But many of the new touches are more subtle, like the wider spacing of the keys on a Sony netbook computer. It accommodates the longer fingernails that women tend to have. Some of the latest mobile phones made by LG Electronics have the cameras' automatic focus calibrated to arm's length. The company observed that young women are fond of taking pictures of themselves with a friend. Men, not so much. Nikon and Olympus have introduced lines of lighter, more compact, and easy-to-use digital, single-lens reflex cameras that were designed with women in mind because they tend to be a family's primary keeper of memories.

› Family buying influences – In Asia, parentalism suggests that much is spent on children. In smaller families, children are doted on.

Children may also have a strong influence on family buying decisions. For example, one study found that kids significantly influence family decisions about where they take vacations and what cars and mobile phones they buy.[8] As children are highly regarded in Asian cultures, it is not uncommon for Asian parents to willingly sacrifice their comfort for their children's well-being. Hence, spending on child-related welfare, education, and development ranks highly in many Asian families.

For example, the lives of mainland Chinese parents and grandparents revolve around their "Little Emperors." China's one-child policy has fostered a culture where when a child tires of a toy, it is thrown out and replenished by their grandparents who visit stores weekly to stock up toys on a "standby" basis. About half of Chinese parents' income is spent on their children. Children's expenses include art, language, reading, drawing, and piano lessons. These only children are expected to support their parents, grandparents, and parents-in-law when they grow up.[9]

Roles and Status

A person belongs to many groups—family, clubs, and organizations. The person's position in each group can be defined in terms of both role and status. A role consists of the activities people are expected to perform according to the persons around them. Each role carries a status reflecting the general esteem given to it by society.

People usually choose products appropriate to their roles and status. Consider the various roles a working mother plays. In her company, she plays the role of a brand manager; in her family, she plays the role of wife and mother; at her favorite sporting events, she plays the role of avid fan. As a manager, she will buy the kind of clothing that reflects her role and status in her company.

❯ Especially in a collectivistic culture like Asia, friends and family influence the role a person plays.

Personal Factors

A buyer's decisions also are influenced by personal characteristics such as the buyer's *age and life-cycle stage*, *occupation*, *economic situation*, *lifestyle*, and *personality and self-concept*.

Age and Life-Cycle Stage

People change the goods and services they buy over their lifetimes. Tastes in food, clothes, furniture, and recreation are often age-related. Buying is also shaped by the stage of the family life cycle—the stages through which families might pass as they mature over time. Marketers often define their target markets in terms of life-cycle stage and develop appropriate products and marketing plans for each stage.

Traditional family life-cycle stages include young singles and married couples with children. Today, however, marketers are increasingly catering to a growing number of alternative, non-traditional stages such as unmarried couples, singles marrying later in life, childless couples, same-sex couples, single parents, extended parents (those with young adult children returning home), and others.

RBC Royal Bank has identified five life-stage segments. The *Youth* segment includes customers younger than 18. *Getting Started* consists of customers aged 18 to 35 who are going through first experiences such as graduation, first credit card, first car, first loan, marriage, and first child. *Builders*, customers aged 35 to 50, are in their peak earning years. As they build their careers and families, they tend to borrow more than they invest. *Accumulators*, aged 50 to 60, worry about saving for retirement and investing wisely. Finally, *Preservers*, customers over 60, want to maximize their retirement income to maintain a desired lifestyle. RBC markets different services to the different segments. For example, with *Builders*, who face many expenses, it emphasizes loans and debt-load management services.[10]

Occupation

A person's occupation affects the goods and services bought. Blue-collar workers tend to buy more rugged work clothes, whereas executives buy more business suits. Marketers try to identify the occupational groups that have an above-average interest in their products and services.

Real Marketing 5.1

Word of Web:
Harnessing the Power of Online Social Influence

It is natural for people to talk about the things that make them happy with other people. This includes their favorite products and brands. For example, if you bought a new Sony GPS camera and you really like it, more often than not you will find it difficult to keep it to yourself. In the past, you would have talked up these brands among friends and family members. However, at present, due to the strong presence and the immense scope of technology, you will be able to share your brand experience with several other consumers via the Web.

In light of this burst in online social activity, marketing teams are now feverishly working to use the newfound technologies to their advantage and trying to get people talking about and interacting with their brands using the Internet. Whether it is the introduction of online brand ambassadors, tapping into existing online influentials and social networks, or developing events and videos that will create a buzz and provoke conversation, the Web is awash with marketing attempts to create brand conversations and involvement online.

An excellent example demonstrating the power of such online brand evangelists is Sony. Using ordinary people as their online brand ambassadors, in 2007 Sony kicked-off the launch of its new GPS camera, a device that uses advanced technology to let you record the exact location of every picture you take and then tag it online using Google Maps. The company selected 25 customers, who like to travel, take pictures, and blog, and gave them each a GPS camera and taught them how to use it. The ambassadors were encouraged to show the camera to their friends, associates, and anyone else who would ask about it. They were also asked to handout discount coupons and blog every week about their travel and picture-taking adventures on a dedicated Sony microsite and other social networking sites.

In China, as opposed to their Western counterparts, consumers are more likely to seek entertainment content from brands. For this reason The North Face, an American retail company specializing in outdoor goods, sought a key opinion leader to create an effective campaign to promote its down jacket range. This person had posted videos of himself packing the down jacket into a number of household items. As a wrap-up, a video was made in collaboration with Durex where the jacket was squeezed into a condom.

The Chinese culture limits the capacity of sending samples to different individuals. Giving samples to perceived influencers so that they may pass them on to friends isn't an effective marketing tool as Chinese consumers who like the product are likely to keep it all for themselves rather than share it. Instead, marketers recruit advocates through online and offline surveys, and "friend get friend" invitations. Participants are asked to complete tasks such as writing and posting product reviews. The most engaging consumers are identified and are given product kits with tools to spread brand messages over the length of the campaign, both online and offline. In one such campaign for Huggies' "Growing Up" diaper pants in Nanjing, sales rose by 160 percent over the previous year because of the use of brand ambassadors.

Producing a good ad that gets people talking is probably one of the most effective and simplest ways to capture the attention of an audience and influence markets via the Web. Almost every company is creating innovative brand-sponsored videos, posting them online in the hopes that they will and get a large number of views and go viral. Lessons can be drawn from Toyota's social media strategy, which includes three steps. First, the company creates short-branded videos. During the promotion campaign for the Tundra, Toyota filmed a few 15-second Instagram videos and shared them with consumers through paid Facebook ads. These videos helped reduce advertising costs while reaching its primary consumer group. Second, the posts and discussions on Facebook and Twitter were tracked and analyzed. This enabled Toyota to identify prospective buyers who were comparing Toyota's vehicle with those of its competitors, which gave Toyota a sense of consumer sentiments towards the brand. Third, Pinterest, an online catalogue of interests and ideas, was used as a tool to improve Toyota's brand appeal by posting stylish pictures of their race drivers and vehicles. This helped in humanizing the brand and creating an emotional connection with consumers, which in turn made Toyota a more approachable and consumer-friendly brand.

Online social influence can also be a source of market research. The Samsung versus Apple battle, where Samsung strategically used social data to attack Apple, highlights this point. Samsung searched posts and tweets from social sites like Tumblr, Twitter, and YouTube, and identified specific complaints about Apple products and were able to assess the areas in which its own products proved to be superior to Apple's. Their search revealed that Apple consumers were disappointed by iPhone's comparatively poor battery life, questioned the effectiveness of Apple Maps, the lacking scope for customization, and its fragile build. If used correctly, not only does such information and social media influence build a stronger brand, but it also creates opportunities for future product development plans and strategies.

Sources

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Economic Situation

A person's economic situation will affect product choice. Marketers of income-sensitive goods observe trends in personal income, savings, and interest rates. If economic indicators point to a recession, marketers can take steps to redesign, reposition, and reprice their products closely. Some marketers target consumers who have lots of money and resources, charging prices to match. For example, Rolex positions its luxury watches as "a tribute to elegance, an object of passion, a symbol for all time," while Timex makes more affordable watches.

Chinese and Foreign Brands—There is a divide in China's economy. On one end are the rural Chinese who can only afford locally made clothes. On the other, there is a growing wealth of Chinese luring not only Western luxury brands such as Hermès and Burberry, but also emerging home-grown Chinese-concept brands Qeelin, Blanc de Chine, and Ne·Tiger. Chinese luxury goods consumers are seeking out goods that emphasize China's culture rather than just Western heritage and exclusivity. Hence, Shanghai Tang launched its China-focused label Shang Xia to meet this changing appetite.[11]

Lifestyle

Lifestyle
A person's pattern of living as expressed in his or her activities, interests, and opinions.

People coming from the same subculture, social class, and occupation may have quite different lifestyles. **Lifestyle** is a person's pattern of living as expressed in his or her psychographics. It involves measuring consumers' major AIO dimensions—activities (work, hobbies, shopping, sports, social events), interests (food, fashion, family, recreation), and opinions (about themselves, social issues, business, products). Lifestyle captures something more than the person's social class or personality. It profiles a person's whole pattern of acting and interacting in the world.

› Lifestyle – These billboard ads in Hong Kong illustrate how ads are positioned to appeal to sporty young women, as well as youths seeking individual expression and creativity.

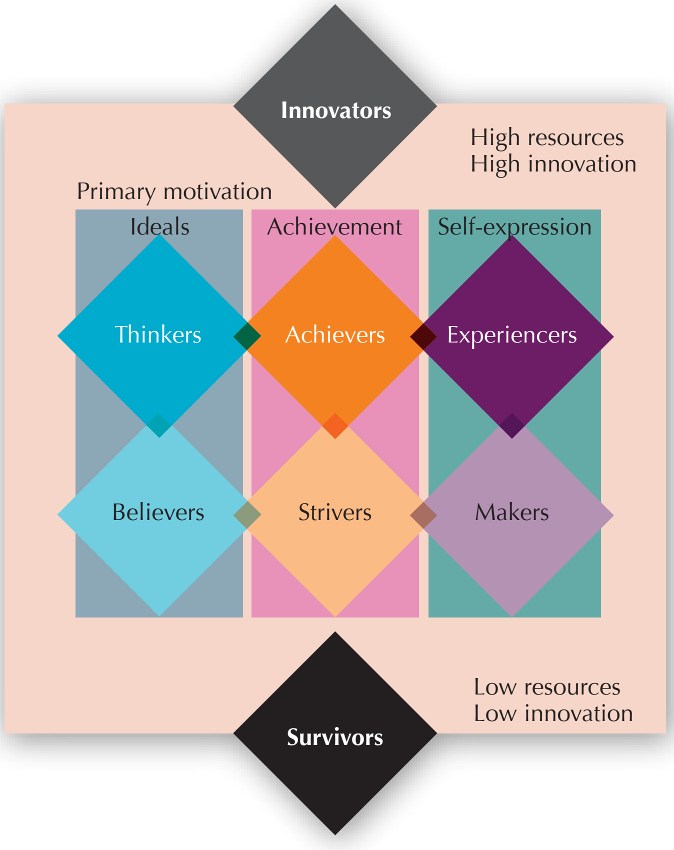


FIGURE 5.3
VALS™ lifestyle classifications

Retail China, a Hong Kong–based retailer, found that young Chinese professionals under 40 years old have a contemporary global outlook and travel more. Many are first-time homeowners looking to fit their homes with furnishings and style. Retail China introduced La Vie En Rose, an upper mass-market swimwear and lingerie brand. Its salespeople are employed not merely to sell the brand but also to educate the customers on why certain swimwear works better for them or how to combine different styles. This enables the company to charge a premium that its target customers are willing to pay.[12]

Several research firms have developed lifestyle classifications. The one most widely used is SRI Consulting Business Intelligence's VALS™ typology (see **Figure 5.3**). VALS classifies people by psychological characteristics and four demographics that correlate with purchase behavior—how they spend their time and money. It divides consumers into eight groups based on two major dimensions: primary motivation and resources. *Primary motivations* include ideals, achievement, and self-expression. According to SRI-BI, consumers who are primarily motivated by *ideals* are guided by knowledge and principles. Consumers who are primarily motivated by *achievement* look for products and services that demonstrate success to their peers. Consumers who are primarily motivated by *self-expression* desire social or physical activity, variety, and risk.

Consumers within each orientation are further classified into those with *high resources* and those with *low resources*, depending on whether they have high or low levels of income, education, health, self-confidence, energy, and other factors. Consumers with either very high or very low levels of resources are classified without regard to their primary motivations (Innovators, Survivors). Innovators are people with so many resources that they exhibit all three primary motivations in varying degrees. In contrast, Survivors are people with so few resources that they do not show a strong primary motivation. They must focus on meeting needs rather than fulfilling desires.

Personality
The unique psychological characteristics that lead to relatively consistent and lasting responses to one's own environment.

Brand personality
The specific mix of human traits that may be attributed to a particular brand.

Personality and Self-Concept

Each person's distinct personality influences his or her buying behavior. **Personality** refers to the unique psychological characteristics that lead to relatively consistent and lasting responses to one's own environment. Personality is usually described in terms of traits such as self-confidence, dominance, sociability, autonomy, defensiveness, adaptability, and aggressiveness. Personality can be useful in analyzing consumer behavior for certain product or brand choices. For example, coffee marketers have discovered that heavy coffee drinkers tend to be high on sociability. Thus, to attract customers, Starbucks and other coffee houses create environments in which people can relax and socialize over a cup of steaming coffee.

❯ Chinese consumers perceive Nike as the coolest brand of all.

The idea is that brands also have personalities, and that consumers are likely to choose brands with personalities that match their own. A **brand personality** is the specific mix of human traits that may be attributed to a particular brand. A study among Chinese youths found that Nike was perceived as having the "coolest" personality (30 percent of the votes), followed by Sony and adidas. However, 51 percent of Chinese youths did not think that China had any cool brand.[13]

One researcher identified five brand personality traits:[14]

- *Sincerity* (down-to-earth, honest, wholesome, and cheerful)
- *Excitement* (daring, spirited, imaginative, and up-to-date)
- *Competence* (reliable, intelligent, and successful)
- *Sophistication* (upper class and charming)
- *Ruggedness* (outdoorsy and tough)

Several well-known brands were found to be strongly associated with a particular trait: Levi's with "ruggedness," MTV with "excitement," CNN with "competence," and Dove with "sincerity." Hence, these brands will attract persons who are high on the same personality traits.

❯ **Brand personality** – How different are the personalities of Coke and Pepsi?

Many marketers use a concept related to personality—a person's *self-concept* (also called *self-image*). The basic self-concept premise is that people's possessions contribute to and reflect their identities; that is, "we are what we have." Thus, to understand consumer behavior, the marketer must first understand the relationship between consumer self-concept and possessions. Coca-Cola's "Share a Coke" campaign with personalized names and localized expressions on the cans helps consumers identify themselves with the Coke.

Psychological Factors

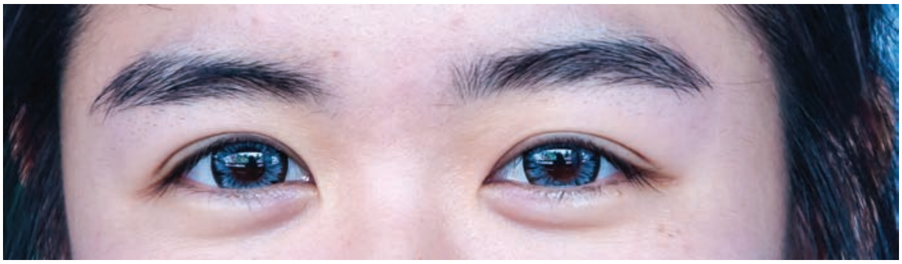
A person's buying choices are further influenced by four major psychological factors: *motivation*, *perception*, *learning*, and *beliefs and attitudes*.

Motivation

A person has many needs at any given time. Some are biological, arising from states of tension such as hunger, thirst, or discomfort. Others are psychological, arising from the need for recognition, esteem, or belonging. A need becomes a motive when it is aroused to a sufficient level of intensity. A **motive** (or **drive**) is a need that is sufficiently pressing to direct the person to seek satisfaction.

Motive (or drive)
A need that is sufficiently pressing to direct the person to seek satisfaction of the need.

Circle contact lenses, popularized by Lady Gaga's wide-eyed look, are gaining popularity in Asia. Teenagers and young women in Japan, Singapore, and South Korea, motivated to make their eyes look bigger, are snapping up these colored contact lenses. These lenses come in a myriad of colors including violet and pink, giving wearers a child-like, doe-eyed appearance. They cover not just the iris as normal lenses do, but also part of the eye whites, thus, making the eyes look bigger. Korean girls even post head shots of themselves online, nearly always wearing circle lenses to accentuate their eyes.[15]



❯ Asian women are motivated to wear colored contact lenses that make their irises look bigger. In this picture, the girl is wearing contact lens.

Psychologists have developed theories of human motivation. Two—the theories of Sigmund Freud and Abraham Maslow—are now discussed. Sigmund Freud assumed that people are largely unconscious about the real psychological forces shaping their behavior. He saw the person as growing up and repressing many urges. These urges are never eliminated or under perfect control; they emerge in dreams, in slips of the tongue, in neurotic and obsessive behavior, or ultimately in psychoses. Freud's theory suggests that a person's buying decisions are affected by subconscious motives that even the buyer may not fully understand. Thus, an ageing baby boomer who buys a sporty Audi R8, featured in the hit movie *Ironman*, might explain that he simply likes the feel of the wind in his thinning hair. At a deeper level, he may be trying to impress others with his success. At a still deeper level, he may be buying the car to feel young and independent again.

The term *motivation research* refers to qualitative research designed to probe consumers' hidden subconscious motivations. Consumers often don't know or can't describe why they act as they do. Thus, motivation researchers use a variety of probing techniques to uncover underlying emotions and attitudes towards brands and buying situations including sentence completion, word association, and inkblots or cartoon interpretation tests.

Abraham Maslow sought to explain why people are driven by particular needs at particular times. Why does one person spend much time and energy on personal safety and another on gaining the esteem of others? Maslow's answer is that human needs are arranged in a hierarchy, as shown in **Figure 5.4**, from the most pressing at the bottom to the least pressing at the top.[16] They include *physiological* needs, *safety* needs, *social* needs, *esteem* needs, and *self-actualization* needs.

❯ **Subconscious motivations** – Inkblot interpretation tests are sometimes used to study consumers' subconscious emotion and attitudes toward brands and buying situations.

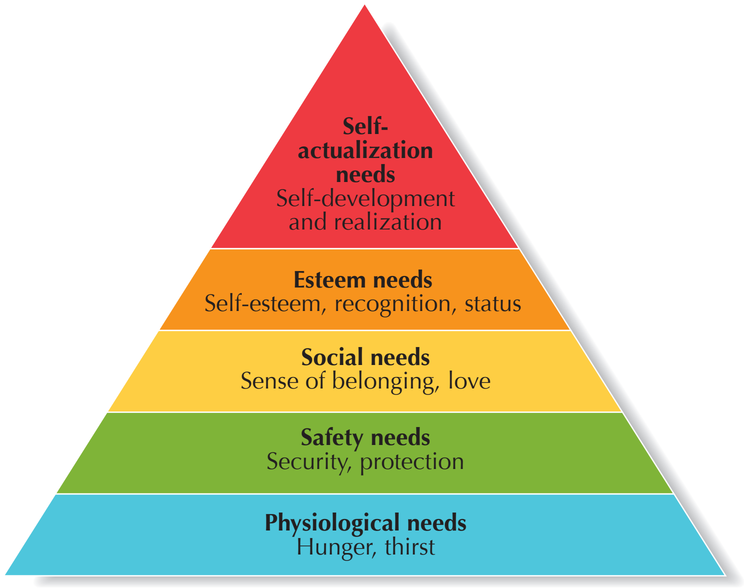


FIGURE 5.4
Maslow's hierarchy of needs

A person tries to satisfy the most important need first. When that need is satisfied, it will stop being a motivator and the person will then try to satisfy the next most important need. For example, starving people (physiological need) will not take an interest in the latest happenings in the art world (self-actualization needs), nor in how they are seen or esteemed by others (social or esteem needs), nor even in whether they are breathing clean air (safety needs). But as each important need is satisfied, the next most important need will come into play.

Perception

A motivated person is ready to act. How the person acts is influenced by his or her own perception of the situation. All of us learn by the flow of information through our five senses: sight, hearing, smell, touch, and taste. However, each of us receives, organizes, and interprets this sensory information in a unique way. **Perception** is the process by which people select, organize, and interpret information to form a meaningful picture of the world.

Perception
The process by which people select, organize, and interpret information to form a meaningful picture of the world.

People can form different perceptions of the same stimulus because of three perceptual processes: selective attention, selective distortion, and selective retention. People are exposed to a great amount of stimuli every day, for example, an estimated 3,000 to 5,000 ad messages daily.[17] It is impossible for a person to pay attention to all these stimuli. *Selective attention*—the tendency for people to screen out most of the information to which they are exposed—means that marketers must work especially hard to attract the consumer's attention.

Unilever – Japanese women are exposed to about 1,000 ads in an average week. In an age where ad clutter and technology are challenging the effectiveness of ads, Unilever aired a seven-minute Hollywood-style minifilm, "Alchemist," in China and Japan for its Lux shampoo. It featured a motorcycle chase at a high-security laboratory where a youth-enhancing elixir, Lux shampoo, is produced. Later at a ball, actress Catherine Zeta-Jones' shimmering hair takes center stage with her motorcyclist accomplice. To overcome selective attention, Unilever bought five-minute blocks of time on channels like China Central Television and Fox to air the minifilm. Unilever feels that getting into the world of movies rather than just having movie stars in the ads draws consumers closer to the brand.[18]

Selective perception – It's impossible for people to pay attention to the thousands of ads they're exposed to every day, so they screen most of them out. Samsung smartphone poster ads are eye-catching to minimize screening out.

Even noticed stimuli do not always come across in the intended way. Each person fits incoming information into an existing mindset. *Selective distortion* describes the tendency of people to interpret information in a way that will support what they already believe. For example, if you distrust a company, you might perceive even honest ads from the company as questionable. Selective distortion means that marketers must try to understand the mindsets of consumers and how these will affect interpretations of advertising and sales information.

One example of differing interpretations is the Beijing Olympic Games. A survey showed that Japanese and Indians tended to be ambivalent about it while Westerners were impressed by China's medal haul. The historical bad blood between Japan and China may have influenced Japanese perceptions adversely, while the Dalai Lama's fleeing China and seeking refuge in India may have contributed to negative Indian perceptions.[19]

People also forget much of what they learn. They tend to retain information that supports their attitudes and beliefs. Because of *selective retention*, consumers are likely to remember good points made about a brand they favor and forget good

When Marigold introduced its strawberry-flavored milk, its ads were designed to capture the audience's attention and interpretation. The strawberries were placed and shaped as a cow's face and a cow's udder to suggest that the milk is strawberry flavored. The products, as seen here, are now packaged with health and nutrition indicators.

points made about competing brands. Because of selective exposure, distortion, and retention, marketers must work hard to get their messages through. This fact explains why marketers use so much drama and repetition in sending messages to their market.

Learning

Learning
Changes in an individual's behavior arising from experience.

When people act, they learn. **Learning** describes changes in an individual's behavior arising from experience. Learning theorists say that most human behavior is learned. Learning occurs through the interplay of drives, stimuli, cues, responses, and reinforcement.

A *drive* is a strong internal stimulus that calls for action. A drive becomes a motive when it is directed towards a particular *stimulus object*. For example, a person's drive for self-actualization might motivate him or her to look into buying a digital camera. The consumer's response to the idea of buying a camera is conditioned by the surrounding cues. *Cues* are minor stimuli that determine when, where, and how the person responds. For example, the person might spot several camera brands in a shop window, hear of a special sale price, or discuss cameras with a friend. These are all cues that might influence a consumer's *response* to his or her interest in buying the product.

Suppose the consumer buys a Canon digital camera. If the experience is rewarding, the consumer will probably use the camera more and more, and his or her response will be *reinforced*. Then, the next time the consumer shops for a camera, or for binoculars or some similar product, the probability is greater that he or she will buy a Canon product. The practical significance of learning theory for marketers is that they can build up demand for a product by associating it with strong drives, using motivating cues, and providing positive reinforcement.

Beliefs and Attitudes

Belief
A descriptive thought that a person has about something.

Attitude
A person's relatively consistent evaluations, feelings, and tendencies toward an object or idea.

Through doing and learning, people acquire beliefs and attitudes. These, in turn, influence their buying behavior. A **belief** is a descriptive thought that a person has about something. Beliefs may be based on real knowledge, opinion, or faith and may or may not carry an emotional charge. Marketers are interested in the beliefs that people formulate about specific products and services, because these beliefs make up product and brand images that affect buying behavior. If some of the beliefs are wrong and prevent purchase, the marketer will want to launch a campaign to correct them.

People have attitudes regarding religion, politics, clothes, music, food, and almost everything else. **Attitude** describes a person's relatively consistent evaluations, feelings, and tendencies toward an object or idea. Attitudes put people into a frame of mind of liking or disliking things, of moving toward or away from them. Our digital camera buyer may hold attitudes such as "Buy the best," "The Japanese make the best electronics products in the world," and "Creativity and self-expression are among the most important things in life." If so, the Nikon camera would fit well into the consumer's existing attitudes.

Attitudes are difficult to change. A person's attitudes fit into a pattern, and to change one attitude may require difficult adjustments in many others. Thus, a company should usually try to fit its products into existing attitudes rather than attempt to change attitudes.

reac JAPAN Co., Ltd., a doggy bag manufacturer, faces an uphill task. In Japan, about 3.05 million tons of edible food were thrown away by restaurants in 2007. Yet, Japan grows only 40 percent of all the food it requires. It would therefore seem reasonable for restaurants to provide doggy bag services to take away leftover food after a meal to trim waste. Thus, reac introduced a line of fancy doggy bags, made of thin plastic, that can be folded flat when not in use and be reused after a good wash. The bags were retailing at 819 yen for two pieces, and sold at Tokyu Hands, a chain whose products often set trends in Japan. However, response was poor. Of the 90 eateries approached, only about 30 agreed to provide doggy bag services. There is a general consensus that consumers who take leftover food home consume it at their own risk. Large restaurant chains, in particular, are worried about hygiene and food poisoning. They would rather serve a smaller portion if a customer requests it than to offer doggy bags at the end of a meal. Hence, the attitude towards packing leftovers is not pervasive in Japan.[20]

Types of Buying Decision Behavior

Buying behavior differs greatly for a tube of toothpaste, an iPod, financial services, and a new car. More complex decisions usually involve more buying participants and more buyer deliberation. **Figure 5.5** shows types of consumer buying behavior based on the degree of buyer involvement and the degree of differences among brands.

	High involvement	Low involvement
Significant differences between brands	Complex buying behavior	Variety-seeking buying behavior
Few differences between brands	Dissonance-reducing buying behavior	Habitual buying behavior

FIGURE 5.5
Four types of buying behavior
Source: Adapted from Henry Assael, Consumer Behavior and Marketing Action (Boston: Kent Publishing Company, 1987), p.87. Copyright © 1987 by Wadsworth, Inc. Printed by permission of Kent Publishing company, a division of Wadsworth, Inc.

Complex Buying Behavior

Consumers undertake **complex buying behavior** when they are highly involved in a purchase and perceive significant differences among brands. Consumers may be highly involved when the product is expensive, risky, purchased infrequently, and highly self-expressive. Typically, the consumer has much to learn about the product category. For example, a PC buyer may not know what attributes to consider. Many product features carry no real meaning—for example, a "3.2 GHz Intel Core i7 processor," "WUXGA active matrix screen," or "8 GB dual-channel DDR2 SDRAM memory."

Complex buying behavior
Consumer buying behavior in situations characterized by high consumer involvement in a purchase and significant perceived differences among brands.

This buyer will pass through a learning process, first developing beliefs about the product, then attitudes, and then making a thoughtful purchase choice. Marketers of high-involvement products must understand the information-gathering and evaluation behavior of high-involvement consumers. They need to help buyers learn about the attributes and their relative importance. They need to differentiate their brand's features, perhaps by describing the brand's benefits using print media with long copy. They must motivate store salespeople and the buyer's acquaintances to influence the final brand choice.

Dissonance-Reducing Buying Behavior

Dissonance-reducing buying behavior
Consumer buying behavior in situations characterized by high involvement but few perceived differences among brands.

Dissonance-reducing buying behavior occurs when consumers are highly involved with an expensive, infrequent, or risky purchase, but see little difference among brands. For example, consumers buying a camera may face a high-involvement decision because cameras are expensive and self-expressive. Yet buyers may consider most camera brands in a given price range to be the same. In this case, because perceived brand differences are not large, buyers may shop around to learn what is available, but buy relatively quickly. They may respond primarily to a good price or to purchase convenience.

After the purchase, consumers might experience *post-purchase dissonance* (after-sale discomfort) when they notice certain disadvantages of the purchased camera brand or hear favorable things about brands not purchased. To counter such dissonance, the marketer's after-sale communications should provide evidence and support to help consumers feel good about their brand choices.

Habitual Buying Behavior

Habitual buying behavior
Consumer buying behavior in situations characterized by low consumer involvement and few significant perceived brand differences.

Habitual buying behavior occurs under conditions of low consumer involvement and little significant brand difference (see **Figure 5.6**). For example, take salt. Consumers have little involvement in this product category—they simply go to the store and reach for a brand. If they keep reaching for the same brand, it is out of habit rather than strong brand loyalty. Consumers appear to have low involvement with most low-cost, frequently purchased products.

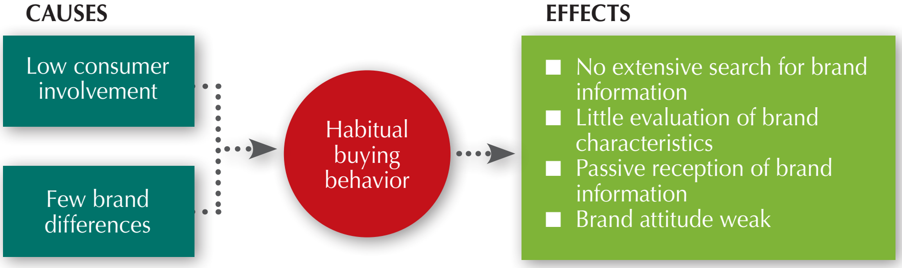


FIGURE 5.6
Causes and effects of habitual buying behavior

In such cases, consumer behavior does not pass through the usual belief–attitude–behavior sequence. Consumers do not search extensively for information about the brands, evaluate brand characteristics, and make weighty decisions about which brands to buy. Instead, they passively receive information as they watch television or read magazines. Ad repetition creates *brand familiarity* rather than *brand conviction*. Consumers do not form strong attitudes toward a brand; they select the brand because it is familiar. Because they are not highly involved with the product, consumers may not evaluate the choice even after purchase. Thus, the buying process involves brand beliefs formed by passive learning, followed by purchase behavior, which may or may not be followed by evaluation.

Because buyers are not highly committed to any brand, marketers of low-involvement products with few brand differences often use price and sales promotions to stimulate product trial. In advertising for a low-involvement product, ad copy should stress only a few key points. Visual symbols and imagery are important because they can be remembered easily and associated with the brand. Ad campaigns should include high repetition of short-duration messages. Television is usually more effective than print media because it is a low-involvement medium suitable for passive learning. Advertising planning can be based on classical conditioning theory, in which buyers learn to identify a certain product by a symbol repeatedly attached to it. Below is an example of classical conditioning at work in China.

KFC entered China five years ahead of McDonald's. It has more outlets and more per capita spending than McDonald's, in large part because it adapts its menu to local tastes. One senior executive at McDonald's decided to personally find out the reasons for that. He stood at KFC's entrance and asked the incoming consumers a simple question, "Why don't you go to McDonald's?" To his surprise, many replied, "They don't sell chicken there." Recognizing consumers' strong preference for chicken over beef, McDonald's in China started to reduce its association with hamburgers and feature chicken more prominently in its menu.

❯ In China, KFC flourished because Chinese associate it with chicken, their favorite meat.

Variety-Seeking Buying Behavior

Consumers undertake **variety-seeking buying behavior** in situations characterized by low consumer involvement but significant perceived brand differences. In such cases, consumers often do a lot of brand switching. For example, when buying soda drinks, a consumer may hold some beliefs, choose a soda drink without much evaluation, and then evaluate that brand during consumption. But the next time, the consumer might pick another brand out of boredom or simply to try something different. Brand switching occurs for the sake of variety rather than because of dissatisfaction.

Variety-seeking buying behavior
Consumer buying behavior in situations characterized by low consumer involvement but significant perceived brand differences.

In such product categories, the marketing strategy may differ for the market leader and minor brands. The market leader will try to encourage habitual buying behavior by dominating shelf space, keeping shelves fully stocked, and running frequent reminder advertising. Challenger firms will encourage variety seeking by offering lower prices, special deals, coupons, free samples, and advertising that presents reasons for trying something new.

Japan's obsession with variety has spurred a phenomenon of food and beverage brands introducing limited exotic flavors. KIT KAT introduced one-off runs in *gentei* (Japanese for "limited edition") flavors such as Cantaloupe Melon and *Koshian Maccha* (green tea with red bean filling). Pepsi launched Ice Cucumber soda. Within days of the pale green drink appearing on shelves at convenience stores, clips of people with the bottle were showing up on YouTube and bloggers were debating whether the taste was more melon than cucumber. A couple of weeks later, the entire stock of 4.8 million bottles was sold. However, instead of increasing production, Pepsi discontinued the drink. Pepsi's strategy is to introduce short-lived fads—once the drink is sold out, it is eliminated from the product line. It thinks that with digital marketing and the increasing changes in consumer brand loyalty, fad marketing will be more popular. Coke, in contrast, introduces some 100 new products each year in Japan and builds on the successful ones instead of removing them from the market as Pepsi does.[21]

❯ The Japanese obsession with *gentei* (or "limited edition") has spun exotic flavored KIT KAT bars. These flavors satisfy the Japanese penchant for variety.

The Buyer Decision Process

Figure 5.7 shows that the buyer decision process consists of five stages: *need recognition*, *information search*, *evaluation of alternatives*, *purchase decision*, and *post-purchase behavior*. Clearly, the buying process starts long before the actual purchase and continues long after. Marketers need to focus on the entire buying process rather than on just the purchase decision.[22]

FIGURE 5.7
Buying decision process

Figure 5.7 suggests that consumers pass through all five stages with every purchase. But in more routine purchases, consumers often skip or reverse some of these stages. A woman buying her regular brand of toothpaste would recognize the need and go right to the purchase decision, skipping information search and evaluation. However, we use the model in Figure 5.7 because it shows all the considerations that arise when a consumer faces a new and complex purchase situation.

Need Recognition

Need recognition
The first stage of the buyer decision process, in which the consumer recognizes a problem or need.

The buying process starts with **need recognition**—the buyer recognizes a problem or need. The need can be triggered by *internal stimuli* when one of the person's normal needs—hunger, thirst, sex—rises to a level high enough to become a drive. A need can also be triggered by *external stimuli*. For example, an advertisement or a discussion with a friend might get you thinking about buying a new car. At this stage, the marketer should find out what kinds of needs or problems arise, what brought them about, and how they led the consumer to this particular product.

In Asia's transitional economies, led by China and India, one can easily find shopping streets in residential and commercial areas in its cities. There, entrepreneurial owners put on the most aggressive and interesting displays of point-of-purchase promotions to remind shoppers of their consumption needs. In these shopping streets, large display signs, music, lighting, smell from restaurants and leather goods stores, together with sales pitches made through loudspeakers and accompanied by product demonstrations make up the typical retailing scene every evening after dinner. These small private entrepreneurs make every effort to catch the attention of passers-by.

Marketing stimuli – A shopping mall in Hongkong filled with advertisements fighting for consumers' attention.

Information Search

An interested consumer may or may not search for more information. The amount of **information search** you do depends on the strength of your drive, the amount of information you start with, the ease of obtaining more information, the value you place on additional information, and the satisfaction you get from searching.

Consumers can obtain information from several sources (see **Table 5.1**). These include *personal sources* (family, friends, neighbors, acquaintances), *commercial sources* (advertising, salespeople, Web sites, dealers, packaging, displays), *public sources* (mass media, consumer-rating organizations, Internet searches), and *experiential sources* (handling, examining, using the product). The relative influence of these information sources varies with the product and the buyer. Generally, the consumer receives the most information about a product from commercial sources—those controlled by the marketer. The most effective sources, however, tend to be personal. Commercial sources normally *inform* the buyer, but personal sources *legitimize* or *evaluate* products for the buyer.

Information search
The stage of the buyer decision process in which the consumer is aroused to search for more information; the consumer may simply have heightened attention or may go into active information search.

TABEL 5.1 Sources of Information

	Personal	Commercial	Public	Experiential
Sources of information	■ Family ■ Friends ■ Neighbors ■ Acquaintances	■ Advertising ■ Salespeople ■ Web sites ■ Dealers ■ Packaging ■ Display	■ Mass media ■ Consumer-rating organizations ■ Internet searches	■ Personal handling, examining, and use of brand
Role of information	Legitimize Evaluate	Inform	Inform	Evaluate

Evaluation of Alternatives

How does the consumer choose among the alternative brands? The marketer needs to know about **alternative evaluation**—that is, how the consumer processes information to arrive at brand choices. Unfortunately, consumers do not use a simple and single evaluation process in all buying situations. Instead, several evaluation processes are used.

Alternative evaluation
The stage of the buyer decision process in which the consumer uses information to evaluate alternative brands in the choice set.

In some cases, consumers use careful calculations and logical thinking. At other times, the same consumers do little or no evaluating; instead they buy on impulse and rely on intuition. Sometimes, consumers make buying decisions on their own; sometimes, they turn to friends, consumer guides, or salespeople for buying advice.

Suppose you've narrowed your car choices to three brands. And suppose that you are primarily interested in four attributes—styling, operating economy, warranty, and price. By this time, you've probably formed beliefs about how each brand rates on each attribute. Clearly, if one car rated best on all the attributes, we could predict that you would choose it. However, the brands will no doubt vary in appeal. You might base your buying decision on only one attribute, and your choice would be easy to predict. If you wanted styling above everything else, you would buy the car you think has the best styling. But most buyers consider several attributes, each with different importance. If we knew the importance that you assigned to each of the four attributes, we could predict your car choice more reliably.

Asian consumers are known to love to shop in the narrow, crowded shopping streets as well as in modern shopping malls. When they shop, they subconsciously use a number of criteria to evaluate product quality. While consumers from developed Western countries like to shop in a relaxed, non-crowded environment, Asian consumers take crowdedness as a sign of good product quality and more importantly, of good value. The crowded setting also helps to excite potential consumers and encourage them to shorten the evaluation process and move on to the purchase decision stage.

Purchase Decision

Purchase decision
The buyer's decision about which brand to purchase.

In the evaluation stage, the consumer ranks brands and forms purchase intentions. Generally, the consumer's **purchase decision** will be to buy the most preferred brand, but two factors can come between the purchase *intention* and the purchase *decision*. The first factor is the *attitudes of others*. If someone important to you thinks that you should buy the lowest-priced car, then the chance of you buying a more expensive car is reduced.

The second factor is *unexpected situational factors*. The consumer may form a purchase intention based on factors such as expected income, expected price, and expected product benefits. However, unexpected events may change the purchase intention. For example, the economy might take a turn for the worse or a close competitor might drop its price. Thus, preferences and even purchase intentions do not always result in actual purchase choice.

Post-Purchase Behavior

Post-purchase behavior
The stage of the buyer decision process in which the consumers take further action after purchase, based on their satisfaction or dissatisfaction.

Cognitive dissonance
Buyer discomfort caused by post-purchase conflict.

The marketer's job does not end when the product is bought. After purchasing the product, the consumer will be satisfied or dissatisfied and will engage in **post-purchase behavior** of interest to the marketer. What determines whether the buyer is satisfied or dissatisfied with a purchase? The answer lies in the relationship between the *consumer's expectations* and the *product's perceived performance*. If the product falls short of expectations, the consumer is disappointed; if it meets expectations, the consumer is satisfied; if it exceeds expectations, the consumer is delighted. The larger the gap between expectations and performance, the greater the consumer's dissatisfaction. This suggests that sellers should promise only what their brands can deliver so that buyers are satisfied.

Almost all major purchases result in **cognitive dissonance**, or discomfort caused by post-purchase conflict. After the purchase, consumers are satisfied with the benefits of the chosen brand and are glad to avoid the drawbacks of the brands not bought. However, every purchase involves compromise. Consumers feel uneasy about acquiring the drawbacks of the chosen brand and about losing the benefits of the brands not purchased. Thus, consumers feel at least some post-purchase dissonance for every purchase.[23]

Why is it so important to satisfy the customer? Customer satisfaction is the key to building profitable relationships with consumers—to keeping and growing consumers and reaping their customer lifetime value. **Figure 5.8** shows the importance of customer satisfaction. Satisfied customers buy a product again, talk favorably to others about the product, pay less attention to competing brands and advertising, and buy other products from the company. Many marketers go beyond merely *meeting* the expectations of customers—they aim to *delight* the customer (see **Real Marketing 5.2**).

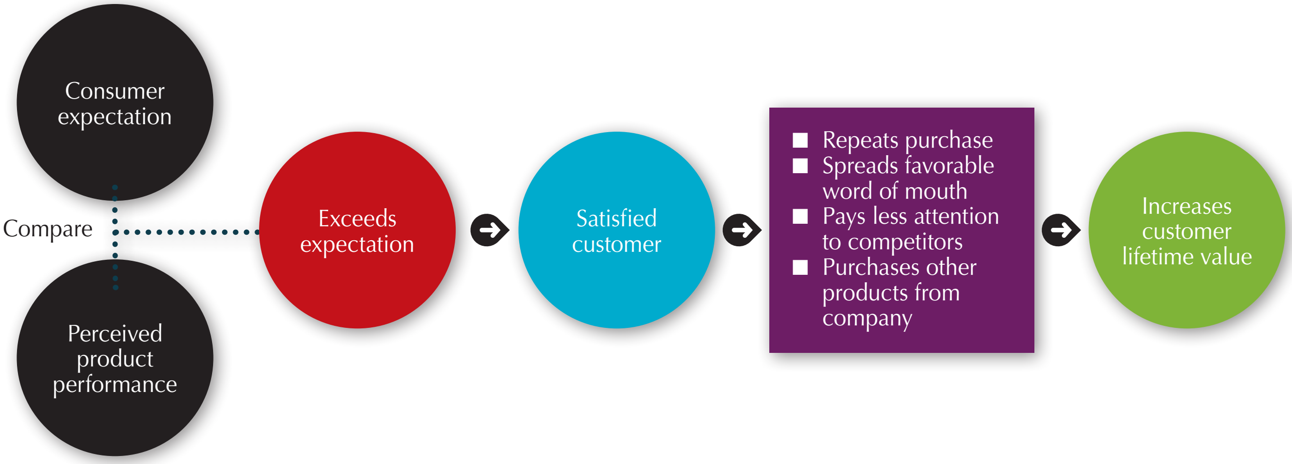


FIGURE 5.8
Importance of customer satisfaction

A dissatisfied consumer responds differently. Negative word of mouth often travels farther and faster than positive word of mouth. It can quickly damage consumer attitudes about a company and its products. But companies cannot simply rely on dissatisfied customers to volunteer their complaints when they are dissatisfied. Most unhappy customers never tell the company about their problem. Therefore, a company should measure customer satisfaction regularly. It should set up systems that *encourage* customers to complain. In this way, the company can learn how well it is doing and how it can improve.

By studying the overall buyer decision, marketers may be able to find ways to help consumers move through it. For example, if consumers are not buying a new product because they do not perceive a need for it, marketing might launch advertising messages that trigger the need and show how the product solves customers' problems. If customers know about the product but are not buying because they hold unfavorable attitudes toward it, the marketer must find ways either to change the product or change consumer perceptions.

Postpurchase cognitive dissonance – No matter what choice they make, consumers feel at least some postpurchase dissonance for every decision.

The Buyer Decision Process for New Products

We now look at how buyers approach the purchase of new products. A **new product** is a good, service, or idea that is perceived by some potential customers as new. It may have been around for a while, but our interest is in how consumers learn about products for the first time and make decisions on whether to adopt them. We define the **adoption process** as "the mental process through which an individual passes from first learning about an innovation to final adoption," and *adoption* as the decision by an individual to become a regular user of the product.[24]

New product
A good, service, or idea that is perceived by some potential customers as new.

Adoption process
The mental process through which an individual passes from first hearing about an innovation to final adoption.

Real Marketing 5.2

Lexus:
Delighting Customers After the Sale to Keep Them Coming Back

› To delight customers and keep them coming back, the Lexus Covenant promises that its dealers will "treat each customer as we would a guest in our home."

Close your eyes for a minute and picture a typical car dealership. Not impressed? Talk to a friend who owns a Lexus, and you'll no doubt get a very different picture. The typical Lexus dealership is, well, anything but typical. Some Lexus dealers will go to almost any length to take care of customers and keep them coming back.

Lexus knows that good marketing doesn't end with making a sale. Keeping customers happy *after* the sale is the key to building lasting relationships. Lexus dealers have a common goal: to delight customers and keep them coming back. Lexus believes that if you "delight the customer, and continue to delight the customer, you will have a customer for life." And Lexus understands just how valuable a customer can be; it estimates that the average lifetime value of a Lexus customer is $600,000.

Despite the amenities, few Lexus customers spend much time hanging around the dealership. Lexus knows that the best dealership visit is the one that you never make. So it builds customer-pleasing cars to start with—high-quality cars that need little servicing. In its "Lexus Covenant," the company vows that it will make "the finest cars ever built." In survey after survey, Lexus rates at or near the top in quality.

When a car does need servicing, Lexus goes out of its way to make it easy and painless. Most dealers will even pick up the car and then return it when the maintenance is finished. And the car comes back spotless, thanks to a complimentary cleaning to remove bugs and road grime from the exterior and smudges from the leather interior. You might even be surprised to find that they've touched up a door ding to help restore the car to its fresh-from-the-factory luster. "My wife will never buy another car except a Lexus," says one satisfied Lexus owner. "They come to our house, pick up the car, do an oil change, [spiff it up,] and bring it back. She's sold for life." And when a customer does bring a car in, Lexus repairs it right the first time, on time. Dealers know that their well-heeled customers have money, "but what they don't have is time."

According to its Web site, from the very start, Lexus set out to "revolutionize the automotive experience with a passionate commitment to the finest products, supported by dealers who create the most satisfying ownership experience the world has ever seen. We vow to value the customer as an important individual. To do things right the first time. And to always exceed expectations."

By all counts, Lexus has lived up to its ambitious customer-satisfaction promise. It has created what appears to be the world's most satisfied car owners. Lexus regularly tops not just the industry quality ratings but also customer-satisfaction ratings globally. Customer satisfaction translates into sales and customer loyalty. In several countries, Lexus is the number one selling luxury car.

Sources

Adapted examples, quotes, and other information from "Lexus and Prius Star for Toyota," *Birmingham Mail*, 19 June 2009, p. 44; Mac Gordon, "He Runs the Largest Lexus Store," *Ward's Dealer Business*, February 2008, p. 64; Neil E. Boudette, "Luxury Car Sellers Put on the Ritz," *Wall Street Journal*, 18 December 2007, p. B1; Julia Chang, "At Your Service," *Sales & Marketing Management*, June 2006, pp. 42–43; Steve Finlay, "At Least She Put Fuel in It," *Ward's Dealer Business*, 1 August 2003, http://wardsdealer.com/ar/auto_least_she_put/; Michael Harley, "Lexus Leads, Hyundai Improves, While Infinity Drops in J.D. Power 2009 Initial Quality Study," 22 June 2009, accessed at www.autoblog.com; "Automobiles & Light Vehicles," *American Customer Satisfaction Index*, www.theacsi.org, accessed March 2010; "Lexus Covenant," www.lexus.com/about/corporate/covenant.html, accessed December 2010.

Stages in the Adoption Process

Consumers go through five stages in the process of adopting a new product (see **Figure 5.9**):

FIGURE 5.9
Stages in the adoption process

- *Awareness*. The consumer becomes aware of the new product, but lacks information about it.
- *Interest*. The consumer seeks information about the new product.
- *Evaluation*. The consumer considers whether trying the new product makes sense.
- *Trial*. The consumer tries the new product on a small scale to improve his or her estimate of its value.
- *Adoption*. The consumer decides to make full and regular use of the new product.

This model suggests that the new-product marketer should think about how to help consumers move through these stages. For example, during the global recession, Hyundai developed a unique way to help customers get past evaluation and make a positive purchase decision about a new vehicle:

> **Hyundai** discovered many potential customers were interested in buying new cars but couldn't get past the evaluation stage of the buying process. Consumers worried that they might buy a car and then lose their jobs and subsequently their new cars and their good credit ratings. To help buyers overcome this hurdle, the car maker offered the Hyundai Assurance Program, which promised to let buyers who financed or leased a new Hyundai vehicle return their vehicles at no cost and with no harm to their credit ratings if they lost their jobs or incomes within a year. The Assurance Program, combined with a 10-year powertrain warranty and a five-year, 24-hour roadside assistance program, all at no extra charge, made the buying decision much easier for customers concerned about the future of the economy. Sales of the Hyundai Sonata surged 85 percent in the month following the start of the Assurance campaign, and the brand's market share grew at an industry-leading pace during the following year. Hyundai continued the program on its models, and other car makers soon followed with their own assurance plans.[25]

Individual Differences in Innovativeness

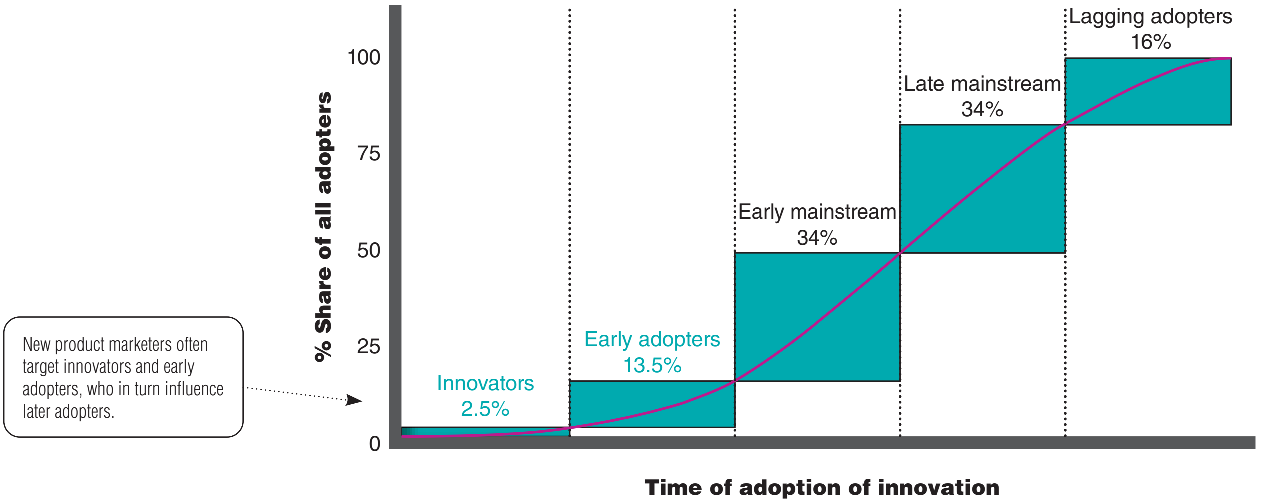
People differ greatly in their readiness to try new products. In each product area, there are "consumption pioneers" and early adopters. Other individuals adopt new products much later. People can be classified into the adopter categories shown in **Figure 5.10**. After a slow start, an increasing number of people adopt the new product. The number of adopters reaches a peak and then drops off as fewer non-adopters remain. Innovators are defined as the first 2.5 percent of the buyers to adopt a new idea (those beyond two standard deviations from the mean adoption time); the early adopters are the next 13.5 percent (between one and two standard deviations); and so on.

The five adopter groups have differing values:

- *Innovators* are venturesome—they try new ideas at some risk.
- *Early adopters* are guided by respect—they are opinion leaders in their communities and adopt new ideas early but carefully.
- *Early majority* are deliberate—although they rarely are leaders, they adopt new ideas before the average person.
- *Late majority* are skeptical—they adopt an innovation only after a majority of people have tried it.
- *Laggards* are tradition bound—they are suspicious of changes and adopt the innovation only when it has become something of a tradition itself.

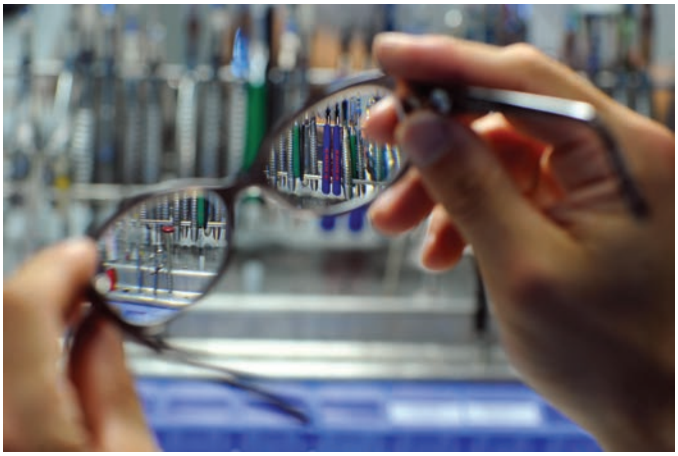
This adopter classification suggests that an innovating firm should research on the characteristics of innovators and early adopters and market directly to them. Research has shown that the adoption curve is steeper in Asia. Asians are less willing to take the social risk to be the first to try new products. However, the discomfort of being left behind spurs them to buy the product if they believe others have tried it. Hence, there are smaller percentages of innovators, early adopters, and laggards; but larger percentages of early and late majorities. Companies therefore must find ways to exploit the strong word-of-mouth effect driving adoption rates in Asia.[26]

FIGURE 5.10
Adopter Categories Based on Relative Time of Adoption of Innovations.



Influence of Product Characteristics on Rate of Adoption

The characteristics of the new product affect its rate of adoption. Some products catch on almost overnight (iPod, iPhone, and iPad), whereas others take a long time to gain acceptance. Five characteristics are especially important in influencing an innovation's rate of adoption. For example, consider the characteristics of the HDTV in relation to the rate of adoption:



› When Essilor launched its new lens in Singapore, it wanted to show its relative advantages that give clear vision—water repellant, dust repellant, smudge repellant, non-reflective, and scratch-resistant. These advantages are compatible with the target market's lifestyle, making the product more easily adopted by consumers. Its ads communicate the benefits of this new lens.

- *Relative advantage.* The degree to which the innovation appears superior to existing products. The greater the perceived relative advantage of using the HDTV—say, in picture quality and ease of viewing—the sooner the HDTV will be adopted.
- *Compatibility.* The degree to which the innovation fits the values and experiences of potential consumers. The HDTV, for example, is highly compatible with the lifestyles found in upper-middle-class homes. However, it is not yet completely compatible with the programming and broadcasting systems currently available to consumers.
- *Complexity.* The degree to which the innovation is difficult to understand or use. HDTVs are not very complex and, therefore, once more programming is available and prices come down, will take less time to penetrate homes than more complex innovations.
- *Divisibility.* The degree to which the innovation may be tried on a limited basis. HDTVs are still relatively expensive. This will slow the rate of adoption.
- *Communicability.* The degree to which the results of using the innovation can be observed or described to others. Because the HDTV lends itself to demonstration and description, its use will spread faster among consumers.

Other characteristics influence the rate of adoption, such as initial and ongoing costs, risk and uncertainty, and social approval. The new-product marketer must research all these factors when developing the new product and its marketing program.

Reviewing Objectives and Key Terms

The world consumer market consists of almost 7 billion people. Consumers around the world vary greatly in age, income, education level, and tastes. Understanding how these differences affect *consumer buying behavior* is one of the biggest challenges marketers face.

OBJECTIVE 1 Define the consumer market and construct a simple model of consumer buyer behavior. (pp. 143–144)

The *consumer market* consists of all the individuals and households who buy or acquire goods and services for personal consumption. The simplest model of consumer buyer behavior is the stimulus–response model. According to this model, marketing stimuli (the four Ps) and other major forces (economic, technological, political, cultural) enter the consumer's "black box" and produce certain responses. Once in the black box, these inputs produce observable buyer responses, such as product choice, brand choice, purchase timing, and purchase amount.

OBJECTIVE 2 Name the four major factors that influence consumer buyer behavior. (pp. 144–159)

Consumer buyer behavior is influenced by four key sets of buyer characteristics: cultural, social, personal, and psychological. Although many of these factors cannot be influenced by the marketer, they can be useful in identifying interested buyers and in shaping products and appeals to serve consumer needs better. *Culture* is the most basic determinant of a person's wants and behavior. It includes the basic values, perceptions, preferences, and behaviors that a person learns from family and other important institutions. *Subcultures* are "cultures within cultures" that have distinct values and lifestyles and can be based on anything from age to ethnicity. People with different cultural and subcultural characteristics have different product and brand preferences. As a result, marketers may want to focus their marketing programs on the special needs of certain groups.

Social factors also influence a buyer's behavior. A person's *reference groups*—family, friends, social organizations, professional associations—strongly affect product and brand choices. The buyer's age, life-cycle stage, occupation, economic circumstances, lifestyle, personality, and other *personal characteristics* influence his or her buying decisions. Consumer *lifestyles*—the whole pattern of acting and interacting in the world—are also an important influence on purchase decisions. Finally, consumer buying behavior is influenced by four major *psychological factors*—motivation, perception, learning, and beliefs and attitudes. Each of these factors provides a different perspective for understanding the workings of the buyer's black box.

OBJECTIVE 3 List and define the major types of buying decision behavior and stages in the buyer decision process. (pp. 159–167)

Buying behavior may vary greatly across different types of products and buying decisions. Consumers undertake *complex buying behavior* when they are highly involved in a purchase and perceive significant differences among brands. *Dissonance-reducing behavior* occurs when consumers are more involved but see little difference among brands. *Habitual buying behavior* occurs under conditions of low involvement and little significant brand difference. In situations characterized by low involvement but significant perceived brand differences, consumers engage in *variety-seeking buying behavior.*

When making a purchase, the buyer goes through a decision process consisting of *need recognition*, *information search*, *evaluation of alternatives*, *purchase decision*, and *post-purchase behavior*. The marketer's job is to understand the buyer's behavior at each stage and the influences that are operating. During *need recognition*, the consumer recognizes a problem or need that could be satisfied by a product or service in the market. Once the need is recognized, the consumer is aroused to seek more information and moves into the *information search* stage. With information in hand, the consumer proceeds to *alternative evaluation*, during which the information is used to evaluate brands in the choice set. From there, the consumer makes a *purchase decision* and actually buys the product. In the final stage of the buyer decision process, *post-purchase behavior*, the consumer takes action based on satisfaction or dissatisfaction.

OBJECTIVE 4 Describe the adoption and diffusion process for new products. (pp. 168–170)

The product adoption process comprises five stages: awareness, interest, evaluation, trial, and adoption. Initially, the consumer must become aware of the new product. *Awareness* leads to *interest*, and the consumer seeks information about the new product. Once information has been gathered, the consumer enters the *evaluation* stage and considers buying the new product. Next, in the *trial* stage, the consumer tries the product on a small scale to improve his or her estimate of its value. If the consumer is satisfied with the product, he or she enters the *adoption* stage, deciding to use the new product fully and regularly.

With regard to diffusion of new products, consumers respond at different rates, depending on the consumer's characteristics and the product's characteristics. Consumers may be innovators, early adopters, the early majority, the late majority, or laggards. *Innovators* are willing to try risky new ideas; *early adopters*—often community opinion leaders—accept new ideas early but carefully; the *early majority*—rarely leaders—decide deliberately to try new ideas, doing so before the average person does; the *late majority* try an innovation only after a majority of people have adopted it; whereas *laggards* adopt an innovation only after it has become a tradition itself. Manufacturers try to bring their new products to the attention of potential early adopters, especially those who are opinion leaders.

Key Terms

OBJECTIVE 1

Consumer buyer behavior (p 139)
Consumer market (p 139)

OBJECTIVE 2

Culture (p 140)
Subculture (p 142)
Social class (p 142)
Group (p 142)
Opinion leader (p 143)
Online social networks (p 143)
Lifestyle (p 148)
Variety-seeking buying behavior (p 157)
Need recognition (p 158)
Information search (p 159)
Alternative evaluation (p 159)
Purchase decision (p 160)
Post-purchase behavior (p 160)
Cognitive dissonance (p 160)

OBJECTIVE 3

Complex buying behavior (p 155)
Dissonance-reducing buying behavior (p 156)
Habitual buying behavior (p 156)

OBJECTIVE 4

New product (p 161)
Adoption process (p 161)
Personality (p 150)
Brand personality (p 150)
Motive (or drive) (p 150)
Perception (p 152)
Learning (p 154)
Belief (p 154)
Attitude (p 154)

Discussing the Concepts

1. How do consumers respond to the various marketing efforts that a company may use? List the buyer characteristics that affect buyer behavior and discuss which one(s) influence you most when making a new mobile phone decision.
2. Explain what "lifestyle" means. In Asia, what is the significance of family and lifestyle on decision making?
3. Name and describe the types of consumer buying behavior. Which one would you most likely use when deciding on (a) where to go for a holiday after graduation and (b) picking a restaurant for dinner?
4. Explain the stages of the consumer buyer decision process and describe how you or your family went through this process to make a recent purchase.
5. What is a "new" product and how do consumers go about deciding whether to adopt a new product?
6. What product characteristics influence an innovation's rate of adoption? Discuss the characteristics of netbooks in relation to the rate of adoption.

Applying the Concepts

1. Marketers often target consumers before, during, or after a trigger event—an event in one's life that triggers change. For example, after having a child, new parents have an increased need for baby furniture, clothes, diapers, car seats, and many other baby-related goods. Consumers who never paid attention to marketing efforts for certain products may now be focused on the ones related to their life change. In a small group, discuss other trigger events that may provide opportunities to target the right buyer at the right time.
2. You are the marketing manager for a small software company that has developed new and novel spam-blocking software. You are charged with selecting the target market for the product launch. Discuss the adopter groups shown in Figure 5.10 and explain how this knowledge may help you in your targeting decision.
3. Suppose you are planning to buy an iPad. Explain (a) the possible motivations for you to buy one, and (b) what possible learnings can occur after your purchase.
4. Suppose singer Lady Gaga wants to find out why some people are keen to listen to her songs and others do not. As her agent, you have to explain to her these differences. Based on concepts related to perception, why do you think there are differences in how people perceive Lady Gaga and her songs?

Focus on Technology

Have you noticed that some of your Facebook friends like certain advertisements? Marketers know what Facebook users like and are using that knowledge to influence users' friends. "Social context ads" are based on data collected on the likes and friends of Facebook users. When you click on an ad indicating that you like it, you also give Facebook permission to share that preference with all your friends. Marketers value this feature because it appears as though you are endorsing the brand to your friends. Nike bought ads on users' homepages in 20 countries prior to the World Cup, and Ford uses Facebook's social context ads to promote the Explorer. Although most ads on Facebook cost as little as $1 per click for marketers, the total cost for a social context ad can be as much as $100,000.

1. Which factors are marketers advertising on Facebook using to influence consumers? Would you be influenced by an ad if you saw that your friends liked it? (AACSB: Communication; Use of IT; Reflective Thinking)
2. How would you feel about Facebook using your name in these types of ads? (AACSB: Communication; Reflective Thinking)

Focus on Ethics

Vitaminwater—sounds healthy, right? Although Vitaminwater has vitamins, it also has 33 grams—that's two heaping tablespoons—of sugar, making it not much better than a soda. Vitaminwater, owned by Coca-Cola, has been under fire from the Center for Science in the Public Interest (CSPI), a consumer-advocacy group that fights for safer, more nutritious foods. The CSPI filed a class-action lawsuit against Coca-Cola, claiming names for Vitaminwater flavors such as "endurance peach mango" and "focus kiwi strawberry" are misleading for two reasons: (1) The drinks contain 0 to 1 percent juice, and (2) words like *endurance*, *focus*, *defense*, *rescue*, and *energy* imply health benefits. Coca-Cola's defense was that reasonable consumers would not be misled into believing that Vitaminwater is healthy for them.

1. Debate whether Coca-Cola is deliberately trying to deceive consumers into believing that Vitaminwater is a healthy alternative to soda. Which psychological factor is most affected by the product name and ad claims and might influence consumers to purchase this product?
   (AACSB: Communication; Ethical Reasoning)
2. Find two other examples of brands that use names, words, colors, package shapes, or other elements to convey potentially deceptive meanings to consumers. (AACSB: Communication; Reflective Thinking)

Marketing & the Economy

AutoZone

Detroit is suffering and everyone knows it. New car sales were down by 21 percent for 2009, handing the industry its worst performance in nearly 30 years. But Detroit's loss has been AutoZone's gain. The do-it-yourself car parts retailer's sales and profits have been running counter to those of the retail world as a whole. One reason is that AutoZone's traditional customers have been tackling more complicated do-it-yourself car repair jobs and visiting stores more frequently. But the retail auto parts giant has also seen a notable increase in customers with incomes of over $100,000 a year, people who typically never so much as pop the hoods of their own cars.

In the more frugal economy, all types of drivers are now looking to save money by doing their own repairs and maintenance. And as people keep their cars longer, these need more repairs. AutoZone has seen this day coming, long ago scrapping its grungy, industrial-store format for one that's more colorful, brightly lit, and filled with super-friendly sales clerks. Soccer moms are now as comfortable getting "into the Zone" as NASCAR fans. Believing that, even in an economic recovery, America's spendthrift habits have now become a thing of the past, that's the way AutoZone planned it.

1. Consider the auto parts buyer's decision process. How has this process changed for new AutoZone customers? How has the economy influenced this change?
2. Visit www.autozone.com. Does it appear that the company is trying to help the newer, less knowledgeable customer? Based on your observations, what recommendations would you make to AutoZone?

Marketing by the Numbers

One way consumers can evaluate alternatives is to identify important attributes and assess how purchase alternatives perform on those attributes. Consider the purchase of a notebook computer. Each attribute, such as memory, is given a weight to reflect its level of importance to that consumer. Then the consumer evaluates each alternative on each attribute. For example, in the table, memory (weighted at 0.5) is the most important computer purchase attribute for this consumer. The consumer believes that Brand C performs best on memory, rating it 7 (higher ratings indicate higher performance). Brand B rates worst on this attribute (rating of 3). Size and price are the consumer's next most important attributes. Warranty is least important. A score can be calculated for each brand by multiplying the importance weight for each attribute by the brand's score on that attribute. These weighted scores are then summed to determine the score for that brand. For example, $\text{Score}_{\text{Brand A}} = (0.2 \times 4) + (0.5 \times 6) + (0.1 \times 5) + (0.2 \times 4) = 0.8 + 3.0 + 0.5 + 0.8 = 5.1$. The consumer will select the brand with the highest score.

1. Calculate the scores for brands B and C. Which brand would this consumer likely choose? (AACSB: Communication; Analytic Reasoning)
2. Which brand is this consumer least likely to purchase? Discuss two ways the marketer of this brand can enhance consumer attitudes toward purchasing its brand. (AACSB: Communication; Reflective Thinking; Analytic Reasoning)

Video Case

Radian6

Social networking has had a huge impact on society. And for marketers, online social communication is changing the way that consumers make purchase decisions. Radian6 specializes in monitoring social media. It tracks a wide array of Web sites at which consumers might "chat" about companies, brands, and general market offerings. Companies such as Dell and Microsoft obtain valuable insights about what consumers are saying about their products and about what factors or events are generating the discussions. But more importantly, companies are gaining a stronger understanding of how consumer online conversations are affecting purchase decisions. In this manner, Radian6 is on the cutting edge of getting a grip on the ever-expanding scope of social networking and "word-of-Web" communication.

After viewing the video featuring Radian6, answer the following questions.

1. What cultural factors have led to the explosion of social networking?
2. How has Radian6 changed the way companies understand opinion leaders and marketing?
3. How is Radian6 helping companies gain insights into the buying decision process?

Company Case

Abercrombie & Fitch: The Asian Hurdle

Abercrombie & Fitch (A&F), a leading American specialty retailer that focuses on casual fashion for the youth and is awash with controversies, opened its flagship store in Tokyo in 2009 with a 12-story shop in Tokyo's upscale Ginza, once the heartland of luxury brands, but now dominated by less expensive fashion stores such as UNIQLO, a Japan-based chain; and fast-fashion brands like Spain's Zara and Sweden's H&M. The target groups of consumers for A&F are teenagers. Many view A&F as being a unique and exciting brand that reflects the teenage definition of "being cool".

With the promise of having the "all-American" experience that is found in its other flagship stores in New York, Los Angeles, London, and Milan, the shoppers in Japan eagerly awaited the launch of the Asian branch. As a result of such expectations, around 700 Japanese stood in line and reportedly brought in about $550,000 (50 million yen) in sales on the first day.

While most multinational apparel companies see immense success in the Japan market, the A&F exuberance did not last for long. A&F has been facing a few challenges in the markets they traditionally do well in (e.g., the United States)—one reason being that their current brand positioning has less relevance, especially to the youth, than before. A&F has not met the challenges of fast fashion competitors, like H&M, well; this is likely to be true in the Asian markets too. The company has received flak in recent years for their strict dress code and "sexualized" marketing strategy; they even faced charges for denying a Muslim woman a job because of her head scarf. Apart from this, in the midst of a long-drawn recession when mostly low-priced fashion brands experienced a boom, A&F decided to charge shoppers in Japan nearly double its American prices. According to a poll of first-day A&F shoppers, 61.7 percent found the prices "a bit high," while 18.3 percent declared them "too high." Less than 20 percent of consumers thought the prices were on target.

While most foreign retailers adapt to the cultural expectations of Japan by working with local employees who are familiar with the market and consumer-base, A&F retained its "all-American" positioning. A&F's retail staff were unable to deliver—most couldn't speak the language and were unaware of the accepted cultural norms of Japan—and employed strategies that, though successful in the United States, failed to endear the brand to most consumers in Japan.

While sex appeal sold in the United States, in Japan having staff members in clothes that exposed too much skin, was not in tangent with the market expectations. Add to that loud music in cramped spaces, A&F was not hitting the right notes. There were other areas where A&F was unsuccessful in—while the Japanese consumers appreciate subtlety, in terms of scents and branding on clothes, A&F reportedly pumped in copious amounts of its signature fragrances into the store and its logo on the clothing items was too large.

A&F faced similar hurdles when it expanded to Singapore. The company's oversized billboard advertisement of a topless man in low-slung jeans was considered too risqué and found to infringe on local advertising code of decency. The ad was removed because it was not aligned to consumer behaviors.

The company did see success in Shanghai. In 2014, A&F opened its first store in the country, which was then the world's second largest apparel market. It generated significant buzz with 500 million social media impressions and 30,000 new Weibo followers. Its direct-to-consumer business in China has also grown at a fast pace. However, can A&F overcome the highly competitive Chinese market?

A&F should recognize that the Asian consumer behavior is very varied and diverse in itself. Consumer preferences differ drastically across different age groups and regions, making it difficult for retailers to target only a particular age group. A&F may face a few roadblocks here as the youth in China, like consumers across the world, will change their preferences and shop for other brands when they outgrow the styles synonymous with their age group. Apart from this, A&F is aware that the pullback in consumer spending since 2014 is an ongoing challenge.

Questions for Discussion

1. Based on the consumer buyer behavior, how do you think A&F should approach its plans to expand in China?
2. Research and analyze the United States and the Japanese markets and the different consumer preferences. Explain how you think A&F can win Japanese consumers over without compromising on what the brand stands for.
3. What lifestyle and personality characteristics should A&F consider as it enters new Asian markets?

Sources

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Objective Outline

OBJECTIVE 1
Define the business market and explain how business markets differ from consumer markets.
Business Markets (177–181)

OBJECTIVE 2
Identify the major factors that influence business buyer behavior.
Business Buyer Behavior (181–187)

OBJECTIVE 3
List and define the steps in the business buying decision process.
The Business Buying Process (188–190)
E-Procurement: Buying on the Internet (190–193)

OBJECTIVE 4
Compare the institutional and government markets and explain how institutional and government buyers make their buying decisions.
Institutional and Government Markets (194–195)

Chapter

6

Business Markets and Business Buyer Behavior

Previewing the Concepts

In the previous chapter, you studied *final consumer* buying behavior and the factors that influence it. In this chapter, we'll do the same for *business customers*—those that buy goods and services for use in producing their own products and services or for resale to others.

To start, let's look at Boeing. It engages in business-to-business marketing. Its more than $60 billion annual revenue comes from large organizational buyers—commercial airlines, air-freight carriers, and government and military buyers. Selling airplanes to large organizational buyers is very different from selling cars or cameras to final consumers.

Boeing: Selling to Businesses—The Stakes Are Much, Much Higher

Most times, buying a new car is an involved and time-consuming process. Before committing to spend $15,000 or more, you spend lots of time searching the Internet for information, watching car ads, talking with friends or salespeople to get their advice, and visiting dealer lots to check out competing models and take test drives. New cars are expensive, and you expect to live with your decision for several years. So you want to get it right.

Now assume that you are a member of the aircraft purchasing team at All Nippon Airways (ANA), Japan's second-largest airline. Your team is charged with making recommendations for the purchase of 50 new airplanes for the company's fleet, at a total cost of more than $5 billion. All of a sudden, by comparison, your new car purchase decision looks pretty simple. The difference, of course, is that new airplanes aren't lined up in dealership showrooms. You can't go down to the lot to kick the tires and test-fly a new plane. And there are a lot more dollars at stake.

In this case, before shelling out more than $150 million per plane, ANA's high-level buying team completed an arduous evaluation of its own needs and available aircraft offerings. You can just imagine the research, evaluation, and debate that went into making such a multibillion-dollar buying decision. ANA finally announced that it would buy 50 Boeing 787 Dreamliners. More recently, the company announced that it would also buy five Boeing 777s and five 767s, worth another $2 billion.

Those are mind-blowing figures by almost any standard—$5 billion; $2 billion. But it's kind of business as usual for Boeing. "The word *big* does not begin to describe Boeing," says one analyst. As the world's commercial aviation leader, Boeing's 12,000 planes dominate the skies. Its small but popular 737 is the

> To succeed in its business-to-business markets, Boeing must build day-in, day-out, year-in, year-out customer partnerships based on superior products, close collaboration, and trust. "When you buy an airplane, it's like getting married," says a Boeing executive. "It is a long-term relationship."

› Selling airplanes to large organizational buyers is very different from selling cars or cameras to final consumers. And the stakes are much, much higher.

workhorse for many airlines, and its giant, two-level 747 was the world's first jumbo jet. Boeing military aircraft include massive cargo planes and tankers, the Chinook and other helicopters, and the F-22 military fighter. Boeing even operates the space shuttle and the international space station, and it is working on the next generation of space vehicles to replace NASA's shuttle fleet.

At a general level, selling commercial aircraft to large business customers is like selling cars to final consumers. It requires a deep understanding of customer needs and a customer-driven marketing strategy that delivers superior customer value. But that's where the similarities end. Boeing sells to only a relatively small number of very large buyers worldwide. It has only three major commercial airline competitors: Airbus, Lockheed Martin, and Northrup Grumman. And buying a batch of jetliners involves dozens or even hundreds of decision makers from all levels of the buying organization, and layer upon layer of subtle and not-so-subtle buying influences. Moreover, whereas it might be disappointing when a car buyer chooses a competing brand, losing a single sale to a large business customer can cost Boeing billions of dollars in lost business.

It takes more than fast talk and a warm smile to sell expensive high-tech aircraft. Before any sale, a team of Boeing company specialists—sales and design engineers, financial analysts, planners, and others—dedicate themselves to becoming an expert on the airline customer. They find out where the airline wants to grow, when it will be replacing planes, and its financial situation. They run Boeing and competing planes through exhaustive analysis, simulating the airline's routes, cost per seat, and other factors to show that Boeing's planes are more effective and efficient. The selling process is nerve-wreckingly slow—it can take two or three years from the first marketing presentation to the day the sale is announced.

Moreover, each sale is just part of a bigger buyer–seller interaction. Boeing's real challenge is to win buyers' business by building day-in, day-out, year-in, year-out customer partnerships based on superior products and close collaboration—before *and* after the sale. When a customer buys an airplane, it also places its trust in a future working relationship with Boeing. "When you buy an airplane, it's like getting married," says a Boeing executive. "It is a long-term relationship."

ANA's decision to buy from Boeing was based in part on the qualities of Boeing's futuristic, yet-to-be-produced 787 Dreamliner aircraft. Just as important, however, was the strong, long-running relationship between ANA and Boeing. When ANA placed that huge order, the Dreamliner was still in the design stage. Not a single plane had yet been built or tested. That took a whole lot of trust on ANA's part.

ANA finally took delivery of the Dreamliner in September 2011. In fact, events that surrounded the development of the 787 highlighted the scale and complexities of business-to-business selling, for both the buyer and the seller. Boeing announced its plans for this radical new mid-sized, wide-body commercial airplane in 2004. Fifty percent of the 787's fuselage consists of one piece of lightweight carbon fiber—eliminating 40,000–50,000 individual fasteners and 1,500 aluminum sheets compared with a traditional design. That puts the 787 in a design class with the stealth bomber. Add innovative new jet engines and other weight-saving innovations, and the 787 will be the lightest, most fuel-efficient passenger jet on the market. The 787's interior will also feature many enhanced passenger comforts: a ride that's 60 percent quieter, offers more leg room, cleaner air, and higher cabin pressure and humidity to reduce passenger fatigue on long trips.

Sounds great? Commercial airlines around the world thought so too. ANA jumped onboard first with its April 2004 order for 50 planes. Fifty-five other companies quickly followed, ballooning Boeing's 787 orders to 895 planes and making it the fastest-selling new commercial aircraft in history. Boeing promised delivery of the first 787s by mid-2008, and that it would deliver 109 planes the first year. To meet that target, the company developed an innovative but very complex manufacturing process.

However, problems plagued the new manufacturing process from the start, causing a numbing two-year delay. The first 787 Dreamliner didn't complete its maiden, three-hour test flight until December 2009, and Boeing pushed back delivery of the first lot of 787s to ANA to the end of 2010 or even later.

The long delays caused substantial problems for customers and Boeing, and put long-established customer relationships to a real test. Some airlines cancelled their orders, and Boeing paid out an estimated $2.5 billion in penalties and concessions. But most customers stayed the course. In a nod to its faith in Boeing and the 787 Dreamliner, ANA remained a patient partner and even added five more planes to its order. At the same time, however, ANA demanded that Boeing provide a detailed plan in order to avoid more surprises and a realistic estimate of when ANA would get its first airplane.

Boeing learned a long list of customer relationship lessons from the delays. In business-to-business partnerships, as in any relationship, trust must be earned anew every day. Says Boeing's president, "We really disappointed our customers … The past three years have been tough for our partners. [But] we are developing closer bonds—it's like climbing a mountain together." In the end, meeting the revised schedules and delivering planes to customers is a must in repairing strained relationships. Says one Boeing watcher, "Good relationships and reputations are built on outstanding performance, not delayed promises."[1]

Like Boeing, many companies sell to other organizations. Companies such as Panasonic, Samsung, Caterpillar, and countless other firms, sell *most* of their products to other businesses. Even consumer products companies, which make products used by final consumers, must first sell their products to other businesses. For example, Nestlé makes many familiar consumer brands—milk (Nespray, Neslac), beverages (Nescafé, Milo), water (Perrier), confectionary (KitKat, Smarties, Crunch), ice cream (Mövenpick), and others. But to sell these products to consumers, Nestlé must first sell them to its wholesaler and retailer customers, who in turn serve the consumer market.

Business buyer behavior refers to the buying behavior of the organizations that buy goods and services for use in the production of their products and services. It also includes the behavior of retailing and wholesaling firms that acquire goods to resell or rent them to others at a profit. In the **business buying process**, business buyers determine which products and services their organizations need to purchase and then find, evaluate, and choose among alternative suppliers and brands. Business-to-business (B2B) marketers must do their best to understand business markets and business buyer behavior. Then, like businesses that sell to final buyers, they must build profitable relationships with business customers by creating superior customer value.

Business buyer behavior
The buying behavior of the organizations that buy goods and services for use in the production of other products and services or for the purpose of reselling or renting them to others at a profit.

Business buying process
The decision process by which business buyers determine which products and services their organizations need to purchase, and then find, evaluate, and choose among alternative suppliers and brands.

Business Markets

The business market is *huge*. In fact, business markets involve far more dollars and items than do consumer markets. In some ways, business markets are similar to consumer markets. Both involve people who assume buying roles and make purchase decisions to satisfy needs. However, business markets differ in many ways from consumer markets. The main differences, shown in **Table 6.1**, are in *market structure and demand*, the *nature of the buying unit*, and the *types of decisions and the decision process* involved.

TABLE 6.1 Characteristics of Business Markets

Market Structure and Demand
Business markets contain *fewer but larger buyers.*
Business buyer demand is *derived* from final consumer demand.
Demand in many business markets is *more inelastic*—not affected as much in the short run by price changes.
Demand in business markets *fluctuates more,* and more quickly.
Nature of the Buying Unit
Business purchases involve *more buyers.*
Business buying involves a *more professional purchasing effort.*
Types of Decisions and the Decision Process
Business buyers usually face *more complex buying decisions.*
The business buying process is *more formalized.*
In business buying, buyers and sellers work closely together and build long-term *relationships.*

Market Structure and Demand

The business marketer normally deals with *far fewer but far larger buyers* than the consumer marketer does. Even in large business markets, a few buyers often account for most of the purchasing. For example, when Goodyear sells replacement tires to final consumers, its potential market includes the owners of the millions of cars around the world. But Goodyear's fate in the business market depends on getting orders from one of only a handful of large automakers. Business customers also tend to be *more geographically concentrated.*

Derived demand
Business demand that ultimately comes from (derives from) the demand for consumer goods.

Business demand is **derived demand**—it ultimately derives from the demand for consumer goods. HP, Lenovo, Samsung, Sony, and Toshiba buy Intel microprocessor chips because consumers buy PCs, tablets, and smartphones. If consumer demand for these devices drops, so will the demand for the processor chips.

Therefore, B2B marketers sometimes promote their products directly to final consumers to increase business demand. For example, Intel advertises heavily to PC buyers, selling them on the virtues of Intel microprocessors. The increased demand for Intel chips boosts demand for the PCs containing them, and both Intel and its business partners win.

Many business markets have *inelastic demand*; that is, total demand for many business products is not affected much by price changes, especially in the short run. A drop in the price of leather will not cause shoe manufacturers to buy much more leather unless it results in lower shoe prices that, in turn, will increase consumer demand for shoes.

Derived demand – Intel's long-running "Intel Inside" logo advertising campaign boosts demand for Intel chips and for the PCs containing them.

› Difference between a business market and a consumer market – The activity may be the same, but the scale of it varies.

Finally, business markets have more *fluctuating demand*. The demand for many business goods and services tends to change more—and more quickly—than the demand for consumer goods and services does. A small percentage increase in consumer demand can cause large increases in business demand.

Nature of the Buying Unit

Compared with consumer purchases, a business purchase usually involves *more decision participants* and a *more professional purchasing effort*. Often, business buying is done by trained purchasing agents. When the purchase is complex, several people will participate in the decision-making process.

Many companies are upgrading their purchasing functions to "supply management" or "supplier development" functions. As B2B marketers face a new breed of higher-level, better-trained supply managers, salespeople must be trained to deal with such buyers.

Types of Decisions and the Decision Process

Business buyers usually face *more complex* buying decisions than do consumer buyers. Purchases often involve large sums of money, complex technical and economic considerations, and interactions among many people at many levels of the buyer's organization. The business buying process also tends to be *more formalized*

› Business marketers work closely with their customers throughout the buying process. Fujitsu has to work with its suppliers when buying component parts. It also has to deal with business customers who buy its products in bulk.

than the consumer buying process. Large business purchases usually call for detailed product specifications, written purchase orders, careful supplier searches, and formal approval.

Finally, in the business buying process, the buyer and seller are often much *more dependent* on each other. B2B marketers work closely with their customers during all stages of the buying process—from helping customers define problems, to finding solutions, to supporting after-sale operations. They often customize their offerings to individual customer needs. In the short run, sales go to suppliers who meet buyers' immediate product and service needs. In the long run, however, B2B marketers keep a customer's sales by meeting current needs *and* by partnering with customers to help them solve their problems.

Unilever – When Unilever started operating in Vietnam, it grew its business by establishing strong partnerships with five key local suppliers. Initially, the suppliers lacked the financial resources, technology, quality control, safety, and environmental standards to meet Unilever's standards. Unilever offered financial support to upgrade equipment and provided extensive training programs on safety and environmental awareness. Technology transfers were made of machinery and formulations as well as quality assurance and analytical methods. As a result, Unilever's production lines were set up quickly, easily, and at lower costs, enabling the rapid launch of its products. With some of the production sites close to its customers, logistical complexities and transportation costs were reduced. Working with these suppliers, Unilever not only managed to achieve significant sales but also formed relationships with local people who understood the market in greater detail. This knowledge was vital in establishing its Vietnamese business.[2]

Supplier development
Systematic developments of networks of supplier-partners to ensure an appropriate and dependable supply of products and materials for use in making products or reselling them to others.

In recent years, relationships between customers and suppliers have been changing from adversarial to close and cooperative. In fact, many customer companies are now practicing **supplier development**, systematically developing networks of supplier-partners to ensure an appropriate and dependable supply of products and materials that they will use in making their own products or reselling to others. For example, Caterpillar no longer calls its buyers "purchasing agents"—they are "managers of purchasing and supplier development."

IKEA, the world's largest furniture retailer, is a global cult brand. Customers from Beijing to Moscow to San Francisco flock to the Scandinavian retailer's more than 300 huge stores in 38 countries, drawn by IKEA's trendy but simple and practical furniture at affordable prices. IKEA's biggest obstacle to growth isn't opening new stores and attracting customers. Rather, it's finding enough of the right kinds of suppliers to help design and produce affordable goods that customers will carry out of its stores. IKEA currently relies on some 1,220 suppliers in 55 countries to stock its shelves. It has systematically developed a robust network of supplier-partners that reliably provide the over 9,500 items it stocks. IKEA's designers start with a basic customer value proposition. Then they find and work closely with key suppliers to bring that proposition to market. Consider IKEA's Olle chair. Based on customer feedback, its designer set out to create a sturdy, durable kitchen chair that would fit any décor. Once the initial design was completed and approved, IKEA's trading offices searched the world and matched the Olle with a Chinese supplier, based on both design and cost efficiencies. Together, the designer and the Chinese supplier refined the design to improve the chair's function and reduce its costs. For example, the supplier modified the back leg angle to reduce the thickness of the seat without compromising the chair's strength, lowering both costs and shipping weight. IKEA also convinced the Chinese supplier to use metal bolts instead of traditional wood joinery methods to attach the chair back to the seat to reduce shipping costs. Thus, IKEA does more than just buy from suppliers; it also involves them in the process of designing and making stylish but affordable products to keep IKEA's customers coming back.[3]

❯ Scandinavian furniture retailer, IKEA, doesn't just buy from its suppliers. It involves them in the process of designing and manufacturing stylish but affordable furniture that keeps customers coming back.

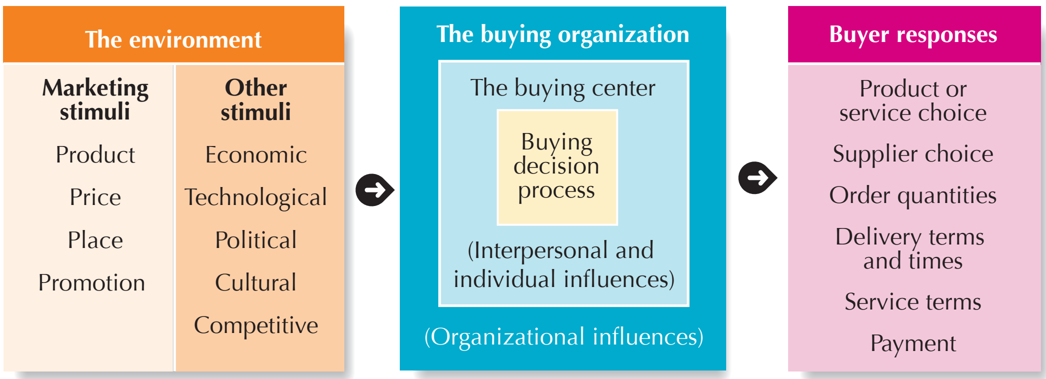
Business Buyer Behavior

At the most basic level, marketers want to know how business buyers will respond to various marketing stimuli. **Figure 6.1** shows a model of business buyer behavior. In this model, marketing and other stimuli affect the buying organization and produce certain buyer responses. As with consumer buying, the marketing stimuli for business buying consist of the four Ps: product, price, place, and promotion. Other stimuli include major forces in the environment: economic, technological, political, cultural, and competitive. These stimuli enter the organization and are turned into buyer responses: product or service choice; supplier choice; order quantities; and delivery, service, and payment terms. To design good marketing mix strategies, the marketer must understand what happens within the organization to turn stimuli into purchase responses.[4]

Within the organization, buying activity consists of two major parts: the buying center, made up of all the people involved in the buying decision; and the buying decision process. The model shows that the buying center and the buying decision process are influenced by internal organizational, interpersonal, and individual factors as well as by external environmental factors.

The model in Figure 6.1 suggests four questions about business buyer behavior:

- What buying decisions do business buyers make?
- Who participates in the buying process?
- What are the major influences on buyers?
- How do business buyers make their buying decisions?



◗ FIGURE 6.1
A model of business buyer behavior

Major Types of Buying Situations

Straight rebuy
A business buying situation in which the buyer routinely reorders something without any modifications.

Modified rebuy
A business buying situation in which the buyer wants to modify product specifications, prices, terms, or suppliers.

New-task situation
A business buying situation in which the buyer purchases a product or service for the first time.

There are three major types of buying situations:[5]

- **Straight rebuy**: In this buying situation, the buyer reorders something without any modification. It is usually handled on a routine basis by the purchasing department. "In" suppliers try to maintain product and service quality. "Out" suppliers try to find new ways to add value or exploit dissatisfaction so that the buyer will consider them.
- **Modified rebuy**: Here, the buyer wants to modify product specifications, prices, terms, or suppliers. The "in" suppliers may become nervous and feel pressured to put their best foot forward to protect an account. "Out" suppliers may see the modified rebuy situation as an opportunity to make a better offer and gain new business.
- **New-task situation**: This occurs when a company buys a product or service for the first time. In such cases, the greater the cost or risk, the larger the number of decision participants and the greater their efforts to collect information will be. The new-task situation is the marketer's greatest opportunity and challenge. The marketer not only tries to reach as many key buying influences as possible but also provides help and information.

The buyer makes the fewest decisions in the straight rebuy and the most in the new-task situation. In the latter, the buyer must decide on product specifications, suppliers, price limits, payment terms, order quantities, delivery times, and service terms. The order of these decisions varies with each situation, and different decision participants influence each choice.

Systems selling (or solutions selling)
Buying a packaged solution to a problem from a single seller, thus avoiding all the separate decisions involved in a complex buying situation.

Many business buyers prefer to buy a packaged solution to a problem from a single seller rather than separate products and services from several suppliers and putting them together. The sale often goes to the firm that provides the most complete system for meeting the customer's needs and solving its problems. Instead of buying and putting all the components together, the buyer may ask sellers to supply the components *and* assemble the package or system. Such **systems selling** (or **solutions selling**) is often a key business marketing strategy for winning and holding accounts.

Thus, transportation and logistics company UPS bundles a complete system of services that support Nikon's consumer products supply chain—including logistics, transportation, freight, and customs brokerage services—into one smooth-running system.

› Systems selling is about providing the most complete solution to a customer's needs.

Nikon – When Nikon entered the digital camera market, it decided that it needed an entirely new distribution strategy. So it asked United Parcel Service, Inc. (UPS), the world's largest package delivery company and supply chain management solutions provider, to design a complete system for moving its entire electronics product line from its Asian factories to retail stores throughout the United States, Latin America, and the Caribbean. Now products leave Nikon's Asian manufacturing centers and arrive on American retailers' shelves in as few as two days, with UPS handling everything in between. UPS first manages air and ocean freight and related customer brokerage to bring Nikon products from Korea, Japan, and Indonesia to its Kentucky operations. There, UPS can either "kit" the Nikon merchandise with accessories such as batteries and chargers or repackage them for in-store display. Finally, UPS distributes the products to thousands of retailers across the United States or exports them to Latin American or Caribbean retail outlets and distributors. Along the way, UPS tracks the goods and provides Nikon with a "snapshot" of the entire supply chain, letting Nikon keep retailers informed of delivery times and adjust them as needed.[6]

❯ Nikon works with transportation company UPS to ensure that its products leave its Asian manufacturing centers and arrive on American retailers' shelves in as few as two days.

Participants in the Business Buying Process

The decision-making unit of a buying organization is called its **buying center**: all the individuals and units that play a role in the purchase decision-making process. This group includes the actual users of the product or service, those who make the buying decision, those who influence the buying decision, those who do the actual buying, and those who control the buying information.

The buying center includes all members of the organization who play any of five roles in the purchase decision process.[7]

- **Users** are members of the organization who will use the product or service. In many cases, users initiate the buying proposal and help define product specifications.
- **Influencers** often help define specifications and also provide information for evaluating alternatives. Technical personnel are particularly important influencers.
- **Buyers** have formal authority to select the supplier and arrange terms of purchase. Buyers may help shape product specifications, but their major role is in selecting vendors and negotiating. In more complex purchases, buyers might include high-level officers participating in the negotiations.
- **Deciders** have formal or informal power to select or approve the final suppliers. In routine buying, the buyers are often the deciders, or at least the approvers.
- **Gatekeepers** control the flow of information to others. For example, purchasing agents often have authority to prevent salespersons from seeing users or deciders. Other gatekeepers include technical personnel and even personal secretaries.

The buying center concept presents a major marketing challenge. The business marketer must learn who participates in the decision, each participant's relative influence, and what evaluation criteria each decision participant uses.

Buying center
All the individuals and units that play a role in the purchase decision-making process.

Users
Members of the buying organization who will actually use the purchased product or service.

Influencers
People in an organization's buying center who affect the buying decision; they often help define specifications and also provide information for evaluating alternatives.

Buyers
People in the organization's buying center who make an actual purchase.

Deciders
People in the organization's buying center who have formal or informal power to select or approve the final suppliers.

Gatekeepers
People in the organization's buying center who control the flow of information to others.

Major Influences on Business Buyers

Business buyers are subject to many influences when they make their buying decisions. Some marketers assume that the major influences are economic. They think buyers will favor the supplier who offers the lowest price or the best product or the most service. However, business buyers actually respond to both economic and personal factors.

Today, most B2B marketers recognize that emotion plays an important role in business buying decisions. For example, you might expect that an advertisement promoting large trucks to corporate fleet buyers would stress objective technical, performance, and economic factors. However, one ad for Volvo heavy-duty trucks shows two drivers arm-wrestling and claims, "It solves all your fleet problems. Except who gets to drive." It turns out that, in the face of an industry-wide driver shortage, the type of truck a fleet provides can help it to attract qualified drivers. The Volvo ad stresses the raw beauty of the truck and its comfort and roominess, features that make it more appealing to drivers. The ad concludes that Volvo trucks are "built to make fleets more profitable and drivers a lot more possessive."[8]

› Emotions play an important role in business buying decisions – Even in business buying where efficiency and ease of maintenance are important criteria, Volvo also stresses the emotional aspects of its trucks including beauty, comfort, and roominess–features that Volvo tells you are "built on traditions you can trust."

When suppliers' offers are very similar, business buyers have little basis for strictly rational choice. Because they can meet organizational goals with any supplier, buyers can allow personal factors to play a larger role in their decisions. However, when competing products differ greatly, business buyers are more accountable for their choices and tend to pay more attention to economic factors. **Figure 6.2** lists various groups of influences on business buyers—environmental, organizational, interpersonal, and individual.[9]

Environmental Factors

Business buyers are heavily influenced by factors in the current and expected *economic environment*, such as the level of primary demand, the economic outlook, and the cost of money. Another environmental factor is the supply of key materials. Many companies are more willing to buy more and hold larger inventories of scarce materials to ensure adequate supply. Business buyers are also affected by technological, political, and competitive developments in the environment. Finally, culture and customs can strongly influence business buyer reactions to the marketer's

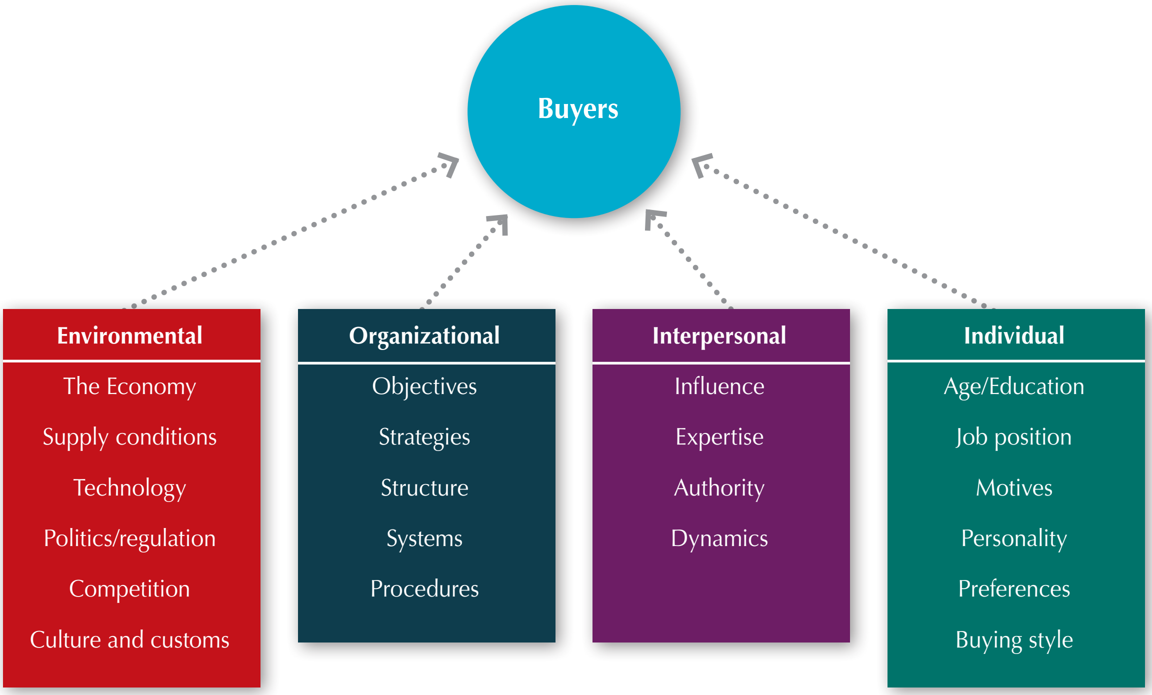


FIGURE 6.2
Major influences on business buyer behavior

behavior and strategies, especially in the international marketing environment (see **Real Marketing 6.1**). The business buyer must watch these factors, determine how they will affect the buyer, and try to turn these challenges into opportunities.

Organizational Factors

Each buying organization has its own objectives, policies, procedures, structure, and systems, and the business marketer must understand these factors well. Questions such as these arise: How many people are involved in the buying decision? Who are they? What are their evaluative criteria? What are the company's policies and limits on its buyers?

Interpersonal Factors

The buying center usually includes participants who influence each other, so *interpersonal factors* also influence the business buying process. However, it is often difficult to assess such interpersonal factors and group dynamics. Buying center participants do not wear tags that label them as "key decision maker" or "not influential." Nor do buying center participants with the highest rank always have the most influence. Participants may influence the buying decision because they control rewards and punishments, are well-liked, have special expertise, or have a special relationship with other important participants. Interpersonal factors are often very subtle.

Individual Factors

Each participant in the business buying decision process brings in personal motives, perceptions, and preferences. These individual factors are affected by personal characteristics such as age, income, education, professional identification, personality, and attitudes toward risk. Also, buyers have different buying styles. Some may be technical types who make in-depth analyses of competitive proposals before choosing a supplier. Other buyers may be intuitive negotiators who are adept at pitting the sellers against one another for the best deal.

Real Marketing 6.1

International Marketing Manners:
When in Rome, Do as the Romans Do

❯ Companies must help their managers understand international customers and customs. For example, the Japanese revere the business card as an extension of self. They do not hand it to people, they present it.

Picture this: Blur King Corporation thinks it's time that the rest of the world enjoyed the fine products it has offered Asian consumers for generations. Accordingly, it sends Marketing Vice President Harry Lin to the Middle East, Europe, and the United States. Dressed in a classy pigskin binder, Mr. Lin visits Saudi Arabia first, where he coolly presents a potential client with a multimillion-dollar proposal in a classy pigskin binder.

In Milan, Harry wears a comfortable short-sleeved shirt, khaki pants, and slip-ons for his appointment with the owner of an Italian packaging design firm. Everybody knows Italians are zany and laid-back. In Germany, Harry whisks through a lavish, state-of-the-art marketing presentation, complete with flip charts and audiovisuals, and shows them that he *knows* how to make a buck.

Later, he swings through Paris. After securing a table at La Tour d'Argent, Harry greets his luncheon guest, the director of an industrial engineering firm with, "Just call me Harry, Jacques." In his next stop, London, Harry makes short work of some bankers—he rings them up on the phone.

Harry's final stop is New York, where he appears an hour late for his appointment. Putting on his best Harlem accent, Harry greets a potential client, who had recently relocated to the Big Apple from the Midwest, with a rousing, "What's happening, bro?"

A great tour, that is sure to generate a pile of orders, right? Wrong. Six months later, Blur King has nothing to show for the trip but a stack of bills. The prospective international clients weren't wild about Harry.

This hypothetical case has been exaggerated for emphasis. Experts say success in international business has a lot to do with knowing the territory and its people.

Poor Harry did try, but in all the wrong ways. To the Saudi Arabians, the pigskin binder would have been considered vile. Harry also goofed when he assumed that Italians are like Hollywood's stereotypes of them. The flair for design and style that has characterized Italian culture for centuries is embodied in the business people of Milan and Rome. They dress beautifully and admire flair, but they blanch at garishness or impropriety in others' attire.

Harry's flashy presentation would likely have been a flop with the Germans, who dislike overstatement and showiness. According to one German expert, calling secretaries by their first names would be considered rude: "They have a right to be called by the surname. You'd certainly ask—and get—permission first." Germans address each other formally and correctly—someone with two doctorates (which is not uncommon) must be referred to as "Herr Doktor Doktor."

A proper Frenchman neither likes instant familiarity—questions about family, church, or alma mater—nor refers to strangers by their first names. An expert on French business practices explains, "It's considered poor taste. Even after months of business dealings, I'd wait for him or her to make the invitation [to use first names] … You are always right, in Europe, to say 'Mister.'"

The British do not, as a rule, make deals over the phone. And not all Americans from the Midwest appreciate an African American greeting, although most expect meetings to start punctually, given their monochronic time orientation.

Back in head office, Harry was asked to give a briefing to his American counterparts about business etiquette in Asia. As Japan, like many Asian countries, is a "no contact culture" in which even shaking hands is a strange experience, Harry advised that patting on each other's back may be labeled as disrespectful and presumptuous. There is also a decorum when it comes to giving out business cards. Japanese sees the business card as an extension of self and as an indicator of rank. They do not hand it to people; they present it—with both hands.

In China, dropping chopsticks during a meal may be misinterpreted as an act of aggression. Stabbing chopsticks into a bowl of rice and leaving them signifies death to the Chinese. Clocks are never offered as gifts as "to give a clock" sounds like "sending someone off to his end."

Thus, to compete successfully in global markets, or even to deal effectively with international firms in their home markets, companies must help their managers understand the needs, customs, and cultures of international business buyers. "When doing business in a foreign country and a foreign culture … assume nothing," advises an international business specialist. "Take nothing for granted. Turn every stone. Ask every question. Dig into every detail. Because cultures really are different, and those differences can have a major impact." So the old advice is still good advice: When in Rome, do as the Romans do.

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The Business Buying Process

Figure 6.3 lists the eight stages of the business buying process.[10] Buyers who face a new-task buying situation usually go through all stages of the buying process. Buyers making modified or straight rebuys may skip some of the stages. We will examine these steps for the typical new-task buying situation.

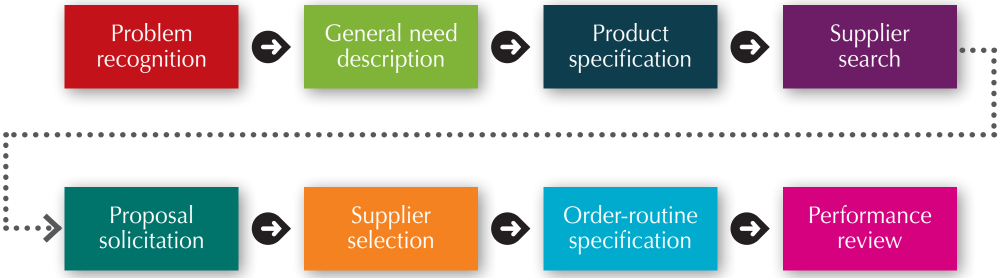

FIGURE 6.3
Stages of the business buying process

Problem Recognition

Problem recognition
The first stage of the business buying process in which someone in the company recognizes a problem or need that can be met by acquiring a good or a service.

The buying process begins when someone in the company recognizes a problem or need that can be met by acquiring a specific product or service. **Problem recognition** can result from internal or external stimuli:

- *Internal stimuli*. The company may decide to launch a new product that requires new production equipment and materials. Or a machine may break down and need new parts. Perhaps a purchasing manager is unhappy with a current supplier's product quality, service, or price.
- *External stimuli*. The buyer may get some new ideas at a trade show, see an ad, or receive a call from a salesperson who offers a better product or a lower price. In their advertising, business marketers often alert customers to potential problems and then show how their products provide solutions. For example, an award-winning ad from Makino Engineering Services, a leading maker of advanced machining tools, highlights a daunting customer problem: hard-to-machine parts. In the ad, the powerful visual shows a machined part that looks like a scary monster, complete with fangs. The ad's headline then offers the solution: "Our application engineers love the scary parts." The ad goes on to reassure customers that Makino can help them with their most difficultto-machine parts and urges, "Don't be afraid of the part."

› **Problem recognition** – Machine tools maker Makino uses ads like this one to alert customers to problems and reassure them that Makino can help find solutions. "Our applications engineers love the scary parts."

General Need Description

Having recognized a need, the buyer next prepares a **general need description** that describes the characteristics and quantity of the needed item. For standard items, this process presents few problems. For complex items, however, the buyer may need to work with others—engineers, users, consultants—to define the item. The team may want to rank the importance of reliability, durability, price, and other attributes desired in the item. In this phase, the alert business marketer can help the buyers define their needs and provide information about the value of different product characteristics.

General need description
The stage of the business buying process in which the company describes the general characteristics and quantity of a needed item.

Product specification
The stage of the business buying process in which the buying organization decides on and specifies the best technical product characteristics for a needed item.

Value analysis
An approach to cost reduction in which components are studied carefully to determine if they can be redesigned, standardized, or made by less costly methods of production.

Supplier search
The stage of the business buying process in which the buyer tries to find the best vendors.

Product Specification

The buying organization next develops the item's technical **product specifications**, often with the help of a value analysis engineering team. **Value analysis** is an approach to cost reduction in which components are studied carefully to determine if they can be redesigned, standardized, or made by less costly methods of production. The team decides on the best product characteristics and specifies them accordingly. Sellers, too, can use value analysis as a tool to help secure a new account. By showing buyers a better way to make an object, outside sellers can turn straight rebuy situations into new-task situations that give them a chance to obtain new business.

Supplier Search

The buyer now conducts a **supplier search** to find the best vendors. The buyer can compile a small list of qualified suppliers by reviewing trade directories, doing computer searches, or phoning other companies for recommendations. Today, more and more companies are turning to the Internet to find suppliers. For marketers, this has leveled the playing field—the Internet gives smaller suppliers many of the same advantages as larger competitors.

The newer the buying task, and the more complex and costly the item, the greater the amount of time the buyer will spend searching for suppliers. The supplier's task is to get listed in major directories and build a good reputation in the marketplace. Salespeople should watch for companies in the process of searching for suppliers and make certain that their firm is considered.

Proposal Solicitation

In the **proposal solicitation** stage of the business buying process, the buyer invites qualified suppliers to submit proposals. Some suppliers will send only a catalog or a salesperson. However, when the item is complex or expensive, the buyer will usually require detailed written proposals or formal presentations from each potential supplier.

Business marketers must be skilled in researching, writing, and presenting proposals in response to buyer proposal solicitations. Proposals should be marketing documents, not just technical documents. Presentations should inspire confidence and should make the marketer's company stand out from the competition.

Proposal solicitation
The stage of the business buying process in which the buyer invites qualified suppliers to submit proposals.

Supplier Selection

The members of the buying center now review the proposals and select a supplier or suppliers. During **supplier selection**, the buying center will often draw up a list of the desired supplier attributes and their relative importance. In one survey, purchasing executives listed the following attributes as most important in influencing the relationship between supplier and customer: quality products and services, on-time delivery, ethical corporate behavior, honest communication, and competitive prices. Other important factors included repair and servicing capabilities, technical aid and advice, geographic location, performance history, and reputation.

Buyers may attempt to negotiate with preferred suppliers for better prices and terms before making the final selections. Buyers generally prefer multiple sources of

Supplier selection
The stage of the business buying process in which the buyer reviews proposals and selects a supplier or suppliers.

supplies to avoid being totally dependent on one supplier and to allow comparisons of prices and performance of several suppliers over time. Supplier development managers want to develop a full network of supplier-partners that can help the company bring more value to its customers.

Order-routine specification
The stage of the business buying process in which the buyer writes the final order with the chosen supplier(s), listing the technical specifications, quantity needed, expected time of delivery, return policies, and warranties.

Performance review
The stage of the business buying process in which the buyer assesses the performance of the supplier and decides to continue, modify, or drop the arrangement.

Order-Routine Specification

The buyer now prepares an **order-routine specification**. It includes the final order with the chosen supplier or suppliers and lists items such as technical specifications, quantity needed, expected time of delivery, return policies, and warranties. In the case of maintenance, repair, and operating items, buyers may use blanket contracts rather than periodic purchase orders. A blanket contract creates a long-term relationship in which the supplier promises to resupply the buyer as needed at agreed prices for a set time period.

Some large buyers practice *vendor-managed inventory*, in which they turn over ordering and inventory responsibilities to their suppliers. Under such systems, buyers share sales and inventory information directly with key suppliers. The suppliers then monitor inventories and replenish stock automatically as needed.

Performance Review

In this stage, the buyer reviews supplier performance. The buyer may contact users and ask them to rate their satisfaction. The **performance review** may lead the buyer to continue, modify, or drop the arrangement. The seller's job is to monitor the same factors used by the buyer to make sure that the seller is giving the expected satisfaction.

E-Procurement and Online Purchasing

E-procurement
Purchasing through electronic connections between buyers and sellers—usually online.

Advances in information technology have changed the face of the B2B marketing process. Online purchasing, often called **e-procurement**, has grown rapidly. E-procurement gives buyers access to new suppliers, lowers purchasing costs, and hastens order processing and delivery. In turn, business marketers can connect with customers online to share marketing information, sell products and services, provide customer support services, and maintain ongoing customer relationships.

Companies can do e-procurement in any of several ways. They can set up their own *company buying sites*. For example, GE operates a company trading site on which it posts its buying needs and invites bids, negotiates terms, and places orders. Or the company can create *extranet links* with key suppliers. For instance, they can create direct procurement accounts with suppliers such as Dell, through which company buyers can purchase equipment, materials, and supplies.

B2B marketers can help customers who wish to purchase online by creating well-designed, easy-to-use Web sites.

› Alibaba is a business-to-business Web site that allows companies to buy online. It has both English and Chinese sites, with the latter offering extra services such as virtual tours and vetting at a fee. Local versions are customized for the Japanese, Indian, and Korean markets.

Alibaba, a B2B online marketplace based in China, has more than 8 million small- and mid-sized corporate customers. The site has two channels—one in English and the other in Chinese. The English-language site uses the keywords model perfected by Google, but the Chinese channel relies largely on a subscription model, with members paying extra fees for special services. Companies that pay $2,900 a year to become "Gold Suppliers" can post an unlimited number of products online, offer virtual tours to would-be buyers, and receive vetting by a credit reporting agency. Alibaba has launched local versions of its B2B service in Japan, South Korea, and India. Its online payment system, Alipay, also has a software, Shopkeeper™, that includes accounting, inventory management, and customer resource management for its small- and mid-sized users for free.[11]

Today's B2B marketers use a wide range of digital and social marketing approaches—from Web sites, blogs, and smartphone apps to mainstream social media such as Facebook, LinkedIn, YouTube, and Twitter to reach business customers and manage customer relationships. Digital and social media marketing has become the new space for engaging business customers (see **Real Marketing 6.2**).

B2B e-procurement yields many benefits:

- *It cuts transaction costs and results in more efficient purchasing for both buyers and suppliers.* A Web-powered purchasing program eliminates the paperwork associated with traditional requisition and ordering procedures.
- *It reduces the time between order and delivery.* Time savings are particularly dramatic for companies with many overseas suppliers. Adaptec, a leading supplier of computer storage, used an extranet to tie all of its Taiwanese chip suppliers together in a kind of virtual family. Now, messages from Adaptec flow in seconds from its headquarters to its Asian partners, and Adaptec has reduced the time between the order and delivery of its chips from as long as 16 weeks to just 55 days—the same turnaround time for companies that build their own chips.
- *It frees purchasing people to focus on issues that are more strategic.* For many purchasing professionals, going online means reducing paperwork and spending more time managing inventory and working creatively with suppliers.

The rapidly expanding use of e-purchasing, however, also presents some problems. For example, although the Web makes it possible for suppliers and customers to share business data and even collaborate on product design, it can also erode decades-old customer–supplier relationships. Many firms are using the Web to search for better suppliers. Japan Airlines uses the Internet to post orders for in-flight materials such as plastic cups. On its Web site, it posts drawings and specifications that attracts proposals from any firm that comes across the site rather than just from Japanese suppliers whom the airlines usually deal with.

E-procurement can also create potential security disasters. Although email and home banking transactions can be protected through basic encryption, the secure environment that businesses need to carry out confidential interactions is often still lacking. Companies are spending millions for research on defensive strategies to keep hackers at bay. Cisco Systems, for example, specifies the types of routers, firewalls, and security procedures that its partners must use to safeguard extranet connections. And the company goes even further—it sends its own security engineers to examine a partner's defenses and holds the partner liable for any security breach that originates from its computers.

Real Marketing 6.2

B2B Social Marketing: The Space to Engage Business Customers

There's a hot new video on YouTube these days, featured at the Makino Machine Tools YouTube channel. It shows Makino's D500 five-axis vertical machining center in action, with metal chips flying as the machinery mills a new industrial part. Sound exciting? Probably not to you. But to the right industrial customer, the video is downright spellbinding. "Wow," says one viewer, "that's a new concept to have the saddle ride in Y rather than X. Is that a rigidity enhancement?" In all, the video has been viewed more than 33,000 times, mostly by current or prospective Makino customers. For B2B marketer Makino, that's great exposure.

When you think of digital marketing and social media, you most likely think of marketing to final consumers. But today, most business-to-business marketers, like Makino, have also upped their use of these new approaches to reach and engage business customers. The use of digital and social media channels in business marketing isn't just growing, it's exploding. Even as most major B2B marketers are cutting back on traditional media and event marketing, they are ramping up their use of everything from Web sites, blogs, mobile apps, e-newsletters, and proprietary online networks to mainstream social media such as Facebook, LinkedIn, Google+, YouTube, SlideShare, and Twitter.

Digital and social media have become the space in which to engage B2B customers and strengthen customer relationships. Again, consider Makino, a leading manufacturer of metal cutting and machining technology:

> Makino employs a wide variety of social media initiatives that inform customers and enhance customer relationships. For example, it hosts an ongoing series of industry-specific Webinars that position the company as an industry thought leader. Makino produces about three Webinars each month and offers a library of more than 100 on topics ranging from optimizing machine tool performance to discovering new metal-cutting processes. Webinar content is tailored to specific industries, such as aerospace or medical, and is promoted through carefully targeted banner ads and e-mails. The Webinars help to build Makino's customer database, generate leads, build customer relationships, and prepare the way for salespeople by providing relevant information and educating customers online.
>
> Makino even uses Twitter, Facebook, and YouTube to inform customers and prospects about the latest Makino innovations and events and to vividly demonstrate the company's machines in action. The results have been gratifying. "We've shifted dramatically into the [digital] marketing area," says Makino's marketing manager. "It speeds up the sales cycle and makes it more efficient—for both the company and the customer. The results have been outstanding."

Compared with traditional media and sales approaches, digital and social media can create greater customer engagement and interaction. B2B marketers know that they aren't really targeting businesses, they are targeting individuals in those businesses who affect buying decisions. "We are selling business-to-people," notes one B2B marketer. And today's business buyers are always connected. They have their digital devices—whether PCs, tablets, or smartphones—hardwired to their brains. As one B2B marketer puts it, "Being at work is no longer a place; it is a state of mind."

Digital and social media can play an important role in engaging today's always-connected business buyers in a way that personal selling alone cannot. Instead of the old model of sales reps calling on business customers at work or maybe meeting up with them at trade shows, the new digital approaches facilitate anytime, anywhere connections between a wide range of people in the selling and customer organizations. It gives both sellers and buyers more control of and access to important information. B2B marketing has always been social network marketing, but today's digital environment offers an exciting array of new networking tools and applications.

No company seems to grasp the new digital and social media opportunities more fully than one of the oldest companies around—IBM. At over 100 years old and with more than 434,000 employees in 170 countries, Big Blue is as fresh and relevant as ever when it comes to social media. It uses a decentralized approach to social media. "We represent our brand online the way it always has been," says an IBM social media executive. "Our brand is largely shaped by the interactions that [IBMers] have with customers."

From that perspective, IBM encourages employees to talk publicly in the social media—to each other and to customers—and lets them go about it with no intervention or oversight. And go about it they do. Thousands of IBMers are the voice of the company. There are 100,000 IBMers using 17,000 internal blogs and 53,000 members plying IBM's own internal Facebook-like network. "Run an online search for 'IBM blog' and you'll find countless IBMers posting publically on everything from service-oriented architecture to sales to parenthood," says one analyst. "If you want to blog at IBM, you simply start." IBM employees by the tens of thousands or even hundreds of thousands are also actively involved on Twitter, LinkedIn, Facebook, YouTube, and many other public social media.

All this IBM-led social networking drives an incredible amount of interaction among IBM employees, customers, and suppliers. For example, an IBM "innovation jam" can include a diverse group of as many as 500,000 people inside and outside the company. Such online interactions helped spawn what is now a major IBM movement, Smarter Planet—an initiative that puts the collective minds and tools at IBM and outside the company toward solving issues ranging from rush-hour traffic to natural disaster response.

Whether it's IBM's decentralized approach to digital and social media or Makino's more focused and deliberate one, B2B marketers are discovering just how effective these new networking channels can be for engaging and interacting with business customers. Digital and social marketing aren't passing B2B fads; they signal a new way of doing business. Gone are the days when B2B marketers can just push out information about their products and services in a sales call or at a marketing event. Instead, marketers need to engage customers in meaningful and relevant ways, whenever and wherever customers demand it, 24 hours a day, 7 days a week. As one B2B social media director states, "Customer expectations have changed. Customers want, on demand, to have a say in how they interact with you as a company." Says another social media expert, "Social media is how the current and next generation of B-to- B customers is choosing to learn about new solutions and stay current on brands."

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Institutional and Government Markets

Institutional market
Schools, hospitals, nursing homes, prisons, and other institutions that provide goods and services to people in their care.

Much of the above discussion also applies to the buying practices of institutions and government organizations. However, these two non-business markets have additional characteristics and needs. In this final section, we address the special features of institutional and government markets.

Institutional Markets

The **institutional market** consists of schools, hospitals, nursing homes, prisons, and other institutions that provide goods and services to people in their care. Institutions differ from one another in their sponsors and in their objectives. Each institution also has different buying needs and resources.

Many institutional markets are characterized by low budgets and captive patrons. For example, hospital patients have little choice but to eat whatever food the hospital supplies. A hospital purchasing agent must decide on the quality of food to buy for patients. Because food is provided as a part of a total service package, the buying objective is not profit. Nor is cost minimization the goal—patients receiving poor-quality food will complain to others and damage the hospital's reputation. Thus, the hospital purchasing agent must search for institutional food vendors whose quality meets or exceeds a certain minimum standard and whose prices are low.

Many marketers set up separate divisions to meet the special characteristics and needs of institutional buyers. For example, Heinz produces, packages, and prices its ketchup and other condiments, canned soups, frozen desserts, pickles, and other products differently to better serve the requirements of hospitals, colleges, and other institutional markets.[12]

› Institutional markets – Heinz produces, packages, and prices its products differently to better serve the requirements of hospitals, colleges, and other institutional markets.

Government Markets

Government market
Government units—federal, state, and local—that purchase or rent goods and services for carrying out the main functions of government.

The **government market** offers large opportunities for many companies, both big and small. In most countries, government organizations are major buyers of goods and services. Government organizations typically require suppliers to submit bids, and normally they award the contract to the lowest bidder. In some cases, the government unit will make allowances for the supplier's superior quality or reputation for completing contracts on time. Governments will also buy on a negotiated contract basis, primarily in the case of complex projects involving major R&D costs and risks, and in cases where there is little competition.

Non-economic criteria also play a growing role in government buying. Government organizations may favor domestic suppliers over foreign suppliers. In promoting domestic businesses, the Chinese government may favor local champions like Lenovo over foreign competitors. For instance, Lenovo has benefited from the government's economic stimulus policies, with Beijing offering subsidies to make it easier for ordinary Chinese to buy computers and other electronics.

Like consumer and business buyers, government buyers are affected by environmental, organizational, interpersonal, and individual factors. Transparency in government procurements vary from country to country. In countries where government buying is carefully watched by outside publics and spending decisions are subject to public review, government organizations require considerable paperwork from suppliers. Suppliers thus complain about excessive paperwork, bureaucracy, regulations, decision-making delays, and frequent shifts in procurement personnel. In other countries, close relationships with government officials overseeing procurement is often critical in winning contracts.

Many companies that sell to the government have not been very marketing-oriented for a number of reasons. Total government spending is determined by elected officials rather than by any marketing effort to develop this market. Government buying has emphasized price, making suppliers invest their effort in technology to bring costs down. When the product's characteristics are specified carefully, product differentiation is not a marketing factor. Nor do advertising or personal selling matter much in winning bids on an open-bid basis.

However, some companies have established separate government marketing departments which anticipate government needs and projects, participate in the product specification phase, gather competitive intelligence, prepare careful bids, and produce stronger communications of their companies' reputations. Others like Dell have set up customized marketing programs for government buyers.

Some governments have also employed online procurement practices. For example, Singapore provides a single point of entry at a Web site called GEbiz (http://www.gebiz.gov.sg) through which commercial vendors and government buyers can post, search, monitor, and retrieve opportunities solicited by government agencies acting as purchasing agents for the rest of the government.

Reviewing Objectives and Key Terms

Business markets and consumer markets are alike in some key ways. For example, both include people in buying roles who make purchase decisions to satisfy needs. But business markets also differ in many ways from consumer markets. For one thing, the business market is *enormous*, far larger than the consumer market.

OBJECTIVE 1 Define the business market and explain how business markets differ from consumer markets. (pp. 177–181)

Business buyer behavior refers to the buying behavior of the organizations that buy goods and services for use in the production of other products and services that are sold, rented, or supplied to others. It also includes the behavior of retailing and wholesaling firms that acquire goods for the purpose of reselling or renting them to others at a profit.

As compared to consumer markets, business markets usually have fewer, larger buyers who are more geographically concentrated. Business demand is *derived*, largely *inelastic*, and more *fluctuating*. More buyers are usually involved in the business buying decision, and business buyers are better trained and more professional than consumer buyers. In general, business purchasing decisions are more complex, and the buying process is more formal than consumer buying.

OBJECTIVE 2 Identify the major factors that influence business buyer behavior. (pp. 181–187)

Business buyers make decisions that vary with the three types of *buying situations*: straight rebuys, modified rebuys, and new tasks. The decision-making unit of a buying organization—the *buying center*—can consist of many different persons playing many different roles. The business marketer needs to know the following: Who are the major buying center participants? In what decisions do they exercise influence and to what degree? What evaluation criteria does each decision participant use? The business marketer also needs to understand the major environmental, organizational, interpersonal, and individual influences on the buying process.

OBJECTIVE 3 List and define the steps in the business buying decision process. (pp. 188–193)

The *business buying decision process* itself can be quite involved, with eight basic stages: problem recognition, general need description, product specification, supplier search, proposal solicitation, supplier selection, order-routine specification, and performance review. Buyers who face a new-task buying situation usually go through all stages of the buying process. Buyers making modified or straight rebuys may skip some of the stages. Companies must manage the overall customer relationship, which often includes many different buying decisions in various stages of the buying decision process.

Recent advances in information technology have given birth to "e-procurement," through which business buyers are purchasing all kinds of products and services online. The Internet gives business buyers access to new suppliers, lowers purchasing costs, and hastens order processing and delivery. However, e-procurement can also erode customer–supplier relationships and create potential security problems. Still, business marketers are increasingly connecting with customers online to share marketing information, sell products and services, provide customer support services, and maintain ongoing customer relationships.

OBJECTIVE 4 Compare the institutional and government markets and explain how institutional and government buyers make their buying decisions. (pp. 194–195)

The *institutional market* consists of schools, hospitals, prisons, and other institutions that provide goods and services to people in their care. These markets are characterized by low budgets and captive patrons. The *government market*, which is vast, consists of government units that purchase or rent goods and services for carrying out the main functions of government.

Government buyers purchase products and services for defense, education, public welfare, and other public needs. Government buying practices are highly specialized and specified, with open bidding or negotiated contracts characterizing most of the buying. Suppliers need to be aware of environmental, organizational, interpersonal, and individual factors which may influence government procurement.

Key Terms

OBJECTIVE 1
Business buyer behavior (p 177)
Business buying process (p 177)
Derived demand (p 178)
Supplier development (p 180)

OBJECTIVE 2
Straight rebuy (p 182)
Modified rebuy (p 182)
New-task situation (p 182)
Systems selling (or solutions selling) (p 182)
Buying center (p 183)
Users (p 183)
Influencers (p 183)
Buyers (p 183)
Deciders (p 183)
Gatekeepers (p 183)

OBJECTIVE 3
Problem recognition (p 188)
General need description (p 189)
Product specification (p 189)
Value analysis (p 189)
Supplier search (p 189)
Proposal solicitation (p 189)
Supplier selection (p 189)
Order-routine specification (p 190)
Performance review (p 190)
E-procurement (p 190)

OBJECTIVE 4
Institutional market (p 194)
Government market (p 194)

Discussing the Concepts

1. Compare and contrast business and consumer markets.
2. List the major influences on business buyers. Why is it important for the business-to-business buyer to understand these major influences?
3. Name and briefly describe the stages of the business buying process.
4. How do institutional and government markets differ from business markets?

Applying the Concepts

1. Business buying occurs worldwide, so marketers need to be aware of cultural factors influencing business customers. In a small group, select a country and develop a multimedia presentation on proper business etiquette and manners, including appropriate appearance, behavior, and communication. Include a map showing the location of the country as well as a description of the country in terms of its demographics, culture, and economic history. (AACSB: Communication; Multicultural and Diversity; Use of IT)
2. Interview a person doing business (he or she can be an entrepreneur such as your canteen operator) to learn how he or she makes business purchases. Ask this person to describe a recent straight rebuy, a modified rebuy, and a new-task buying situation of which he or she is aware. (If necessary, define these terms for the businessperson.) Did the buying process differ for different types of products or purchase situations? Ask the businessperson to explain his or her role in a recent purchase and discuss the factors that influenced the decision. Write a brief report of your interview, applying the concepts you learned in this chapter regarding business buyer behavior. (AACSB: Communication; Reflective Thinking)

Focus on Technology

How would you like to sell to a customer that spends billions of dollars per year on contractors? If so, you need to learn how to crack the government market. The government purchases goods ranging from toilet paper to aircraft carriers and services from janitorial supplies to high-tech IT. How do businesses—big and small—find out about opportunities in this market? One way is to search the government's Web site for opportunities. A great deal of the government's buying is now done online.

1. Go to the U.S. Federal Business Opportunities Web site (https://www.fbo.gov) and watch the general overview demonstration video for vendors. After watching the video, conduct a search for opportunities using tips you learned in the video. Are there many opportunities in your geographic area? Write a brief report describing the usefulness of this Web site for businesses desiring to sell to the government market. (AACSB: Communication; Use of IT; Reflective Thinking)
2. Visit the Web sites of other government buying resources to learn more about them. Write a brief report explaining how small businesses can use these resources. (AACSB: Communication; Use of IT; Reflective Thinking)

Focus on Ethics

Pharmaceutical companies give physicians money and other promotional benefits when marketing their products; some receive hundreds of thousands of dollars. J&J, Pfizer, GSK, and other drug manufacturers are now disclosing payments to physicians, medical centers, and academic institutions. In the second half of 2009, Pfizer paid $35 million to 4,500 doctors and academic medical centers, and GSK reported paying $14.6 million in the second quarter of 2009. In total, the drug industry spends about $20 billion per year marketing to health professionals. These payments are in the form of gifts, food, trips, speaking fees, drug samples, and educational programs. The companies are providing this information voluntarily now. However, by 2013, pharmaceutical companies will be required by law to publicly disclose cumulative payments to healthcare providers totaling $100 or more per year.

1. What type of demand exists for pharmaceutical and medical device products? Discuss the roles doctors play in the business buying process for medical equipment used in a hospital and why companies market so heavily to them.
(AACSB: Communication; Reflective Thinking)
2. Should the promotional relationships between doctors and drug and medical device companies be allowed? Discuss the pros and cons of this practice. Will a disclosure of this relationship influence your decision regarding which doctor to visit?
(AACSB: Communication; Reflective Thinking; Ethical Reasoning)

Marketing & the Economy

Caterpillar

Caterpillar had been growing for 15 years. As the largest and most geographically diverse heavy equipment maker, it was best positioned to weather a slow economy. And although Caterpillar did okay throughout 2008, it took a blow as the recession spread worldwide and institutions everywhere stopped building things. For Caterpillar, annual revenue toppled 37 percent in 2009 (from $51 billion to $32 billion), while profits spiraled downward 75 percent. Caterpillar responded by dramatically cutting costs. It also rolled out promotional incentives similar to those offered by automotive manufacturers in order to spark sales. By 2015, as some important economic sectors began to recover, Caterpillar's sales and profits also rebounded. In 2015, it revenue rose to $55.2 billion.

1. Given the nature of the demand for its products, is there anything that Caterpillar could have done to maintain or increase revenues in a down economy?
2. As a corporation that fuels the economy to some extent, is there anything that Caterpillar can do to facilitate a global economic recovery?

Marketing by the Numbers

B2B marketing relies heavily on sales reps. Salespeople do more than just sell products and services; they manage relationships with customers to deliver value to both the customer and their companies. Thus, for many companies, sales reps visit customers several times per year—often for hours at a time. Sales managers must ensure that their companies have enough salespeople to adequately deliver value to customers.

1. Refer to Appendix 2 to determine the number of salespeople a company needs if it has 3,000 customers who need to be called on 10 times per year. Each sales call lasts approximately 2.5 hours, and each sales rep has approximately 1,250 hours to devote to customers per year.
   (AACSB: Communication; Analytical Reasoning)
2. If each sales rep earns a salary of $60,000 per year, what sales are necessary to break even on the sales force costs if the company has a contribution margin of 40 percent? What effect will adding each additional sales representative have on the break-even sales?
   (AACSB: Communication; Analytical Reasoning)

Video Case

Eaton

With nearly 60,000 employees doing business in 125 countries and sales of more than $11 billion, Eaton is one of the world's largest suppliers of diversified industrial goods. Eaton's products make cars more peppy, 18-wheelers safer to drive, and airliners more fuel-efficient. So why haven't you heard of the company? Because Eaton sells its products not to end consumers but to other businesses.

At Eaton, B2B marketing means working closely with customers to develop a better product. Eaton partners its sophisticated, knowledgeable clients to create total solutions that meet their needs. It maps the decision-making process to better understand the concerns and interests of decision makers. Eaton's success depends on its ability to provide high-quality, dependable customer service and product support. Through service and support, Eaton develops a clear understanding of consumer needs and builds stronger relationships with clients.

After viewing the video featuring Eaton, answer the following questions about business markets and business buyer behavior.

1. What is Eaton's value proposition?
2. To which decision makers does Eaton market its products and services?
3. Discuss the different ways that Eaton provides value beyond that which companies can provide for themselves.

Company Case

Cisco Systems:
Solving Business Problems Through Collaboration

You've heard of Cisco. It's the company known for those catchy "Tomorrow starts here" ads. But while you may have seen its ads and other promotions, Cisco Systems is not for regular consumers like you. In fact, after ten years of trying to establish a presence in the world of consumer products, the company recently sold Linksys and its home networking business, shut down its Flip video business, and otherwise dissolved various other product lines marketed to folks like you and me. In doing so, Cisco has clearly defined itself as what it has always been since it started selling network products commercially in the 1980s—a tried and true business-to-business company. In fact, it earned honors as Advertising Age's 2013 "BtoB Best Marketer." Cisco's core business is comprised of routers, switches, and advanced network technologies—the things that keep the data moving around cyberspace 24/7. However, ever since the dot-com bust, Cisco has been pioneering the next generation of networking tools, from cyber security to videoconferencing to cloud systems.

This story is about much more than just a tech giant that makes the equipment companies need to run their Internet and intranet activities. It's about a forward-thinking firm that has transitioned from a hardware company to a leadership consultancy. In the process, there is one concept that seems to be the main driver of Cisco's business with other organizations: customer collaboration. Cisco is all about collaborating with its business customers to help them better collaborate internally with employees as well as externally with suppliers, partners, and their customers.

Collaboration Within and Without

John Chambers became the CEO of Cisco way back in 1995, when annual revenues were a mere $1.2 billion. He successfully directed the growth of Cisco as a hardware provider. But following the dot-com bust in the early 2000s, he knew the world had become a different place. In response, he engineered a massive, radical, and often bumpy reorganization of the company. Chambers turned Cisco inside out and created a culture of 75,000 employees that truly thrives on collaboration. As such, Cisco is the perfect laboratory where new products are developed, used, and then sold to external clients. Cisco doesn't just manufacture hardware and software that makes all the sharing activity possible— it's the expert on how to use it. All this collaboration has helped Cisco's business explode, hitting $48 billion last year.

Perhaps Cisco's advertising campaign, "Tomorrow starts here," best illustrates the company's philosophy. The campaign highlights the Internet of Everything (IoE)—Cisco's term for bringing people, processes, data, and equipment together through networked connections—and the benefits that come to an organization when it utilizes its network of people more effectively. As the campaign points out, the next big thing is "lots of things—all waking up. . . . Trees will talk to networks will talk to scientists about climate change. Cars will talk to road sensors will talk to stoplights about traffic efficiency. The ambulance will talk to patient records will talk to doctors about saving lives."

According to Cisco, the pragmatic approach of the campaign helps customers understand how Cisco's IoE technologies can increase profits, speed up the development and execution of strategic insights, sustain a competitive advantage, and be more secure throughout all of it. This campaign has helped Cisco become the 13th most valuable brand in the world at the same time it has communicated why companies need Cisco's products and services.

Chambers tells the story of how Cisco began its transition from hardware into services. "Our customers literally pulled us kicking and screaming into providing consultancy," says Chambers. Some years ago, the CEO of financial services company USAA asked Chambers to help the company figure out what to do with the Internet. Chambers replied that Cisco wasn't in the Internet consulting business. But when USAA committed to giving all its networking business to Cisco if it would take the job, Chambers proclaimed "We are in that business!" Now, Cisco has both the products and the knowledge to help other companies succeed on the Internet. A turning point for Chambers in further understanding the impact that Cisco can have on clients was the Great Sichuan Earthquake near Chengdu, China.

Tae Yoo, a 19-year Cisco veteran, supervises the company's social responsibility efforts and sits on the China strategy board and the emerging-countries council. "I had always been a believer in collaboration," she says, but after the earthquake, "I saw it really happen. Our local team immediately mobilized, checking in with employees, customers, NGO partners. The council got people on the phone, on [video conference], to give us a complete assessment of what was happening locally. We connected West China Hospital to a specialized trauma center in Maryland via the network." High-level medical centers from the other side of the world were able to weigh in on diagnostics remotely. Cisco employees were on the ground helping rural areas recover and rebuild homes and schools. Within 14 days, Yoo continues, "I walked over to the China board with a complete plan and $45 million to fund it." That number ultimately grew to more than $100 million. "Our business is growing 30 percent year over year there," Chambers says, adding that Cisco has committed to investing $16 billion in public–private partnerships in China. “No one has the reach and trust that we do. No one could offer the help that we could.”

Collaboration Benefits

Cisco management knows that number one on most CEOs' lists, is to break down the communication barriers between a company and its customers, suppliers, and partners. According to Jim Grubb, Chambers' longtime product-demo sidekick, “If we can accelerate the productivity of scientists who are working on the next solar technology because we're hooking them together, we're doing a great thing for the world.”

But while routers and switches still account for most of Cisco's business, the really interesting developments are far more cutting edge. Consider Cisco's involvement in what it calls the Smart+Connected Communities initiative. Perhaps the best example of a smart and connected community is New Songdo City in South Korea, a soon-to-be-completed city the size of downtown Boston being built from scratch on a man-made island in the Yellow Sea. Cisco was hired as the technology partner for this venture and is teaming up with the construction companies, architects, 3M, and United Technologies as partners in the instant-city business.

Cisco's involvement goes way beyond installing routers, switches, and citywide Wi Fi. The networking giant is wiring every square inch of the city with electronic synapses. Through trunk lines under the streets, filaments will branch out through every wall and fixture like a nervous system. Cisco is intent on having this city run on information, with its control room playing the part of New Songdo's brain stem.

Not content to simply sell the plumbing, Cisco will operate services layered on top of its hardware. Imagine a city where every home and office is wired to Cisco videoconferencing screens. Engineers will listen, learn, and release new Cisco-branded services for modest monthly fees. Cisco intends to bundle urban necessities— water, power, traffic, communications, and entertainment—into a single, Internet-enabled utility. This isn't just big brother stuff. This Cisco system will allow New Songdo to reach new heights in environmental sustainability and efficiency. Because of these efficiencies, the cost for such services to residents will be cheaper as well.

The smart cities make one of Cisco's other businesses all the more relevant. Studies show that telecommuting produces enormous benefits for companies, communities, and employees. For example, telecommuters have higher job satisfaction. For that reason, they are more productive, giving back as much as 60 percent of their commuting time to the company. There is even evidence that people like working from home so much that they would be willing to work for less pay. An overwhelming majority of telecommuters produce work in a timelier manner with better quality. Their ability to communicate with co-workers is at least as good and in many cases better than when they work in the office. With products like Cisco Virtual Office and the expertise that Cisco offers to go with it, Sun Microsystems saved $68 million. It also reduced carbon emissions by 29,000 metric tons.

Cisco has also recently unveiled a set of Internet-based communication products to enhance organizations' collaborative activities. Cisco says this is all about making business more people-centric than document-centric. Its cloud-based WebEx suite promises to empower customers to “connect with anyone, anywhere, any time.” In addition to WebEx Mail, WebEx Meetings provides “better meetings from beginning to end” with high-definition video conferencing that incorporates presentations, file sharing, and simultaneous use of applications, all from a computer or mobile device. WebEx Social—a sort of Facebook for corporations—allows the free flow of information to increase exponentially over existing products because they exist behind an organization's firewall with no filters, lawyers, or security issues to get in the way. And other WebEx products provide for training, customer service and IT support, and large scale online events and Webinars.

A Bright Future

“Tomorrow starts here” isn't just a tagline—it's a call to action. And as Cisco's campaign points out, the next big thing is “not that far away.” Cisco has weathered tough economic times in recent years, emerging stronger, more flexible, and better poised for growth in new markets. During the decade of the 2000s, Cisco acquired 48 venture-backed companies. In the last four years, the company acquired 32 more, giving it ownership of dozens of new collaboration technologies. With these resources—and $50 billion in cash that it has stowed away—Cisco is now expanding into 30 different markets, each with the potential to produce $1 billion a year in revenue. Moving forward, the company has committed to adding 20 percent more new-market businesses annually. And because Cisco enters a new market only when it's confident that it can gain a 40 percent share, the chance of failure is far below normal.

The collaboration market has been estimated at $35 billion, a figure that will grow substantially in years to come. Because Cisco is the leader in this emerging industry, analysts have no problem accepting John Chambers' long-term goal of 12 to 17 percent revenue growth per year. Cisco has demonstrated that it has the product portfolio and the leadership structure necessary to pull it off. One thing is for sure. Cisco is no longer just a plumber, providing the gizmos and gadgets necessary to make the Internet go around. It is a networking leader, a core competency that will certainly make it a force to be reckoned with for years to come.

Questions for Discussion

1. Discuss the nature of the market structure and demand for Cisco's products.
2. Given the industries in which Cisco competes, what are the implications for the major types of buying situations?
3. What specific customer benefits likely result from the Cisco products mentioned in the case?
4. Discuss the customer buying process for one of Cisco's products. Discuss the selling process. In what ways do these processes differ from those found in buying and selling a broadband router for home use?
5. Is the relationship between Cisco's own collaborative culture and the products and services it sells something that could work for all companies? Consider this issue for a consumer products company like P&G.

Sources

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Objective Outline

OBJECTIVE 1
Define the major steps in designing a customer-driven marketing strategy: market segmentation, targeting, differentiation, and positioning.
Customer-Driven Marketing Strategy (205–207)

OBJECTIVE 2
List and discuss the major bases for segmenting consumer and business markets.
Market Segmentation (207–218)

OBJECTIVE 3
Explain how companies identify attractive market segments and choose a market-targeting strategy.
Market Targeting (219–225)

OBJECTIVE 4
Discuss how companies differentiate and position their products for maximum competitive advantage.
Differentiation and Positioning (225–235)

Chapter 7

Customer-Driven Marketing Strategy: Creating Value for Target Customers

Previewing the Concepts

So far, you've learned what marketing is, and the importance of understanding consumers and the marketplace environment. This chapter looks further into key customer-driven marketing strategy decisions—how to divide up markets into meaningful customer groups *(segmentation)*, choose which customer groups to serve *(targeting)*, create market offerings that best serve target customers *(differentiation)*, and position the offerings in the minds of consumers *(positioning)*. The chapters that follow explore the tactical marketing tools—the four Ps—by which marketers bring these strategies to life.

As an opening example of segmentation, targeting, differentiation, and positioning at work, let's look at Charles & Keith, a fast-growing shoes and accessories company that is making headway in Asia and the Middle East.

Charles & Keith: If the Shoe Fits

Charles & Keith changed the face of footwear and accessories for women in Asia, and other countries, by building on their unique selling positioning—offering timeless, sophisticated, and one-of-a-kind products to serve a particular market segment that wants affordable fashion.

Charles Wong and his younger brother Keith learned how to manage a shoe business by helping their parents at their shoe store in Ang Mo Kio. The shoes were bought from the same wholesalers used by its competitors, and manufactured in the same factories used by rivals. Based on customer feedback, Charles observed that just selling the shoes bought from wholesalers didn't give the customers much to choose from and didn't cater to what they desired. There was a lack of product differentiation and positioning to help expand this market. In his early 30s, Charles, together with Keith, decided to create an

Charles & Keith continues to offer timeless, sophisticated, and one-of-a-kind products by focusing on marketing segmentation based on consumer feedback.

edge over their competitors and took over the business and started afresh. By the end of 1997, the brothers began designing shoes on the basis of consumer demands. Charles Wong said, "It was a time where we got to interact with customers and listen to their feedback, while learning the foundations of running a business."

With their primary target group being women of 25–35 years, today the 70-member strong design team introduce new designs at break-neck speed—around 750 new footwear designs and 300 new bags and accessories every year to cater to the diverse needs of their customers from different markets. This translates to 20 new items every week; regular customers will have around 80 new designs to choose from every month.

To keep up with a customer-driven market, three percent of revenue is set aside for the training of designers—mainly Singaporeans, Malaysians, and Chinese—who have to make regular trips to Europe and the United States to attend fashion shows and conduct market research.

In the Middle East, where Islam is the predominant religion, they learnt that most women wear a *burqa, hijab,* or *niqab*. In this geography and culture, complementary items are more in demand—shoes paired with bags or shoes with accessories like belts and sunglasses; and Charles & Keith delivered such complementary pieces. The appeal of its in-house designs is evident from its catalog featuring European photo shoots of lanky models with trendy shoe designs, bags, and sunglasses. This is also translated to its online sales store to help Charles & Keith reach out to markets that it does not have a retail presence.

After its first overseas store in Indonesia in 1998 there are now more than 60 stores in China and around 350 stores worldwide, including Tokyo, Seoul, and Dubai. In 2006, it launched Pedro, a new store offering lavish leather footwear, unlike Charles & Keith that caters to people looking for contemporary and trendy styles. In 2010, luxury conglomerate Louis Vuitton Moet Hennessy (LVMH), Asia, bought a 20 percent stake in the company for $24 million. With this capital injection, Charles & Keith set its sight on the United States, China, India, and Western Europe.[1]

Companies today recognize that they cannot appeal to all buyers in the marketplace, or at least, not to all buyers in the same way. Buyers are too numerous, too widely scattered, and too varied in their needs and buying practices. Moreover, the companies vary widely in their abilities to serve different segments of the market. Instead, like Charles & Keith, a company must identify the parts of the market that it can serve best and most profitably. It must design customer-driven marketing strategies that build the *right* relationships with the *right* customers.

As one shopkeeper who runs a general store in Qiaoliufan, just outside Beijing, says, "Before, we offered just one product to consumers and they accepted that. Now, they have a brand in mind when they walk through the door."

Thus, most companies have moved away from mass marketing and toward *target marketing*—identifying market segments, selecting one or more of them, and developing products and marketing programs tailored to each. Instead of scattering their marketing efforts (the "shotgun" approach), firms are focusing on the buyers who have greater interest in the values they create best (the "rifle" approach).

Figure 7.1 shows the four major steps in designing a customer-driven marketing strategy. In the first two steps, the company selects the customers that it will serve. **Market segmentation** involves dividing a market into smaller groups of buyers with distinct needs, characteristics, or behaviors, who might each require separate products or marketing mixes. The company identifies different ways to segment the market and develops the profiles of the resulting market segments. **Market targeting** (or **targeting**) consists of evaluating each market segment's attractiveness and selecting one or more market segments to enter.

In the final two steps, the company decides on a value proposition—how it will create value for target customers. **Differentiation** involves differentiating the firm's market offering to create superior customer value. **Positioning** consists of arranging for a market offering to occupy a clear, distinctive, and desirable place relative to competing products in the minds of target consumers. We discuss each of these steps in turn.

❯ Consumers have such varied preferences that stores are offering different brands to capture their business.

Market segmentation
Dividing a market into smaller groups with distinct needs, characteristics, or behaviors who might require separate products or marketing mixes.

Market targeting (or targeting)
The process of evaluating each market segment's attractiveness and selecting one or more segments to enter.

Differentiation
Actually differentiating the firm's market offering to create superior customer value.

Positioning
Arranging for a product to occupy a clear, distinctive, and desirable place relative to competing products in the minds of target consumers.

Market Segmentation

Buyers in any market differ in their wants, resources, locations, buying attitudes, and buying practices. Through market segmentation, companies divide large, heterogeneous markets into smaller segments that can be reached more efficiently and effectively with products and services that match their unique needs. In this section, we discuss four important segmentation topics: segmenting consumer markets, segmenting business markets, segmenting international markets, and requirements for effective segmentation.

Segmenting Consumer Markets

There is no single way to segment a market. A marketer has to try different segmentation variables, alone and in combination, to find the best way to view the market structure. **Table 7.1** outlines the major variables that might be used in segmenting consumer markets. Here we look at the major *geographic*, *demographic*, *psychographic*, and *behavioral* variables.

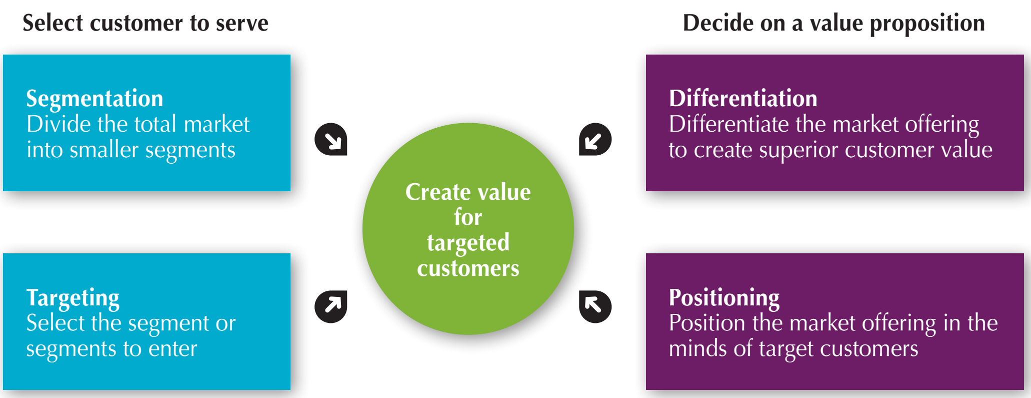


FIGURE 7.1
Steps in market segmentation, targeting, and positioning

TABLE 7.1 Major Segmentation Variables for Consumer Markets

Geographic	
World region or country	North America, Western Europe, Middle East, Pacific Rim, China, India, Canada, Mexico
Country region	North, South, East, West, Central
City size	Under 5,000; 5,000–20,000; 20,000–50,000; 50,000–100,000; 100,000–250,000; 250,000–500,000; 500,000–1,000,000; 1,000,000–4,000,000; over 4,000,000
Density	Urban, suburban, rural
Climate	Northern, southern
Demographic	
Age	Under 6, 6–11, 12–19, 20–34, 35–49, 50–64, 65+
Gender	Male, female
Family size	1–2, 3–4, 5+
Family life cycle	Young, single; young, married, no children; young, married with children; older, married with children; older, married, no children; under 18; older, single; other
Income	Under $10,000; $10,000–$20,000; $20,000–$30,000; $30,000–$50,000; $50,000–$100,000; $100,000 and over
Occupation	Professional and technical; managers, officials, and proprietors; clerical; sales; craftspeople; supervisors; operatives; farmers; retired; students; homemakers; unemployed
Education	Grade school or less; some high school; high school graduate; some college; college graduate
Religion	Buddhist, Catholic, Hindu, Muslim, Protestant, Taoist, other
Race	Chinese, Indian, Malay, other
Generation	Baby boomer, Generation X, Generation Y
Nationality	Chinese, Filipino, Indonesian, Japanese, Malaysian
Psychographic	
Social class	Lower lowers, upper lowers, working class, middle class, upper middles, lower uppers, upper uppers
Lifestyle	Achievers, strivers, survivors
Personality	Compulsive, filial, outgoing, authoritarian, ambitious
Behavioral	
Occasions	Regular occasion; special occasion
Benefits	Quality, service, economy, convenience, speed
User status	Non-user, ex-user, potential user, first-time user, regular user
User rates	Light user, medium user, heavy user
Loyalty status	None, medium, strong, absolute
Readiness stage	Unaware, aware, informed, interested, desirous, intending to buy
Attitude toward product	Enthusiastic, positive, indifferent, negative, hostile

Geographic segmentation
Dividing a market into different geographical units such as nations, states, regions, counties, cities, or neighborhoods.

Geographic Segmentation

Geographic segmentation calls for dividing the market into different geographical units such as nations, regions, states, counties, cities, or even neighborhoods. A company may decide to operate in one or a few geographical areas, or to operate in all areas but pay attention to geographical differences in needs and wants.

Many companies localize their products, advertising, promotion, and sales efforts to fit the needs of individual regions and cities.

Coca-Cola developed four ready-to-drink canned coffees for the Japanese market, each targeted to a specific geographic region. Also, it found that Japanese teenagers, always on the go, did not like to leave their Coke cans open while talking on their mobile phones. Hence, Coke introduced Coke cans with a twisted cap for the Japanese market. Procter & Gamble introduced Curry Pringles in England and Funky Soy Sauce Pringles in Asia to cater to different taste buds.[2] Another example involves Unilever, which launched shampoo brand, Clear, specifically for China. Clear's advertising campaign initially used a Taiwanese television personality, Xu Xidi, and South Korean pop star, Rain. The campaign spoke to Chinese consumers about dandruff in a way that Unilever felt was relevant to them. Other Asian celebrities were subsequently used.[3]

› Geographic segmentation
Coca-Cola targets teens the world over through universal teen themes such as music.

Geographic segmentation also occurs within national borders. For urban Chinese mainlanders, P&G's Crest toothpaste comes in exotic flavors such as Icy Mountain Spring and Morning Lotus Fragrance. For those living in the rural areas, there is Crest Salt White because the rural Chinese believe that salt whitens teeth.[4]

Demographic Segmentation

Demographic segmentation divides the market into groups based on variables such as age, gender, family size, family life cycle, income, occupation, education, religion, race, generation, and nationality. Demographic factors are the most popular bases for segmenting customer groups. One reason is that consumer needs, wants, and usage rates often vary closely with demographic variables. Another is that demographic variables are easier to measure than most other types of variables. Even when market segments are first defined using other bases, such as benefits that could be sought or behavior, their demographic characteristics must be known to assess the size of the target market and to reach it efficiently.

Demographic segmentation
Dividing a market into groups based on variables such as age, gender, family size, family life cycle, income, occupation, education, religion, race, generation, and nationality.

Age and Life-Cycle Stage

Consumer needs and wants change with age. Some companies use **age and life-cycle segmentation,** offering different products or using different marketing approaches for different age and life-cycle groups.

Age and life-cycle segmentation
Dividing a market into different age and life-cycle groups.

❯ Enchanteur has two ranges–Love and Paris –for women at different stages of romance.

Enchanteur is a range of French-inspired fragrances and fragranced toiletries made for the young, romantic modern woman. It has sub-brands in Enchanteur Paris and Enchanteur Love. Fragrances in each range are designed uniquely to suit specific moments and journey of love in various stages of life. Says its general manager, "There is no guarantee of everlasting love but we can certainly give it a better chance of staying enduring by taking actions; positive ones each day. A very important key to everlasting love is keeping the romance alive. Using fragrance is one of the best ways among the many ways in igniting and rekindling the spark of romance. The reason for this is that scents can powerfully trigger beautiful memories and enable us to relive enchanting experiences and affect our mood, emotion and behavior."[5]

Marketers must be careful to guard against stereotypes when using age and life-cycle segmentation. For example, while some 40-year-old couples are sending their children off to college, others are just beginning new families. Thus, age may be a poor predictor of a person's life cycle, health, work or family status, needs, and buying power. Companies marketing to mature consumers usually employ positive images and appeals. For example, Japan's baby food makers have targeted seniors given the country's rapidly ageing population. As elderly Japanese do not like admitting their age, discreet appeals are employed to reach them. Wakodo sells its elder food as "Fun Meals," while Q.P. labels its pouches "Food for Ages 0–100."

Gender

Gender segmentation has long been used in clothing, cosmetics, toiletries, and magazines. Some women's cosmetics makers have begun marketing men's lines or some brands have been created specially for men.

Gender segmentation
Dividing a market into different segments based on gender.

❯ Dashing is targeted at the contemporary men, fostering friends as brothers having a good time together.

Skincare products for men – The upward trend for men's products in Asia is attributed to Asian men being more open about their skin problems. Taiwanese, South Korean, and Japanese men are especially particular about skin care. In Malaysia, Wipro-Unza offers Dashing, a brand for the contemporary, carefree and confident man connecting brothers to enjoy life together. L'Oréal offers Men's Expert skin care products and a VIVE For Men grooming line. Ads proclaim, "Now L'Oréal Paris brings its grooming technology and expertise to men… because you're worth it too." Its Biotherm Homme is targeted at first-time male white-collar users aged 25 to 39.[6]

Nike has stepped up its efforts to capture the women's sports apparel market. It has overhauled its women's apparel line—called Nikewomen—to create better-fitting, more colorful, more fashionable workout clothes for women. Its revamped Nikewomen.com Web site features the apparel, along with workout trend highlights.[7]

Even transportation companies use gender segmentation. In Japan, railway and bus companies offer "women-only" cars and buses. Reports of women being molested on night buses have led to safety concerns. Heisei Enterprise Group operates women-only buses plying the Tokyo–Kobe route. This service is popular among women in their 20s and 30s. In India, women-only trains, called Ladies Special, provide Indian women with a perfect getaway from the pushing and shoving in regular trains, where men can harass or tease them.[8]

Gender segmentation
– Nike has stepped up its efforts to capture the women's sport apparel market by overhauling its women's apparel lines, revamping the Nikewomen.com Web site, and opening Nikewomen stores in several major cities.

Income

Income segmentation has long been used by the marketers of products and services such as automobiles, clothing, cosmetics, financial services, and travel. Many companies target affluent consumers with luxury goods and convenience services. Credit card companies offer premium credit cards with perks, such as VISA's Signature card, MasterCard's World card, and American Express's super-elite Centurion card.

Here are other examples of income segmentation. When Hyundai first entered the U.S. market, it introduced the $4,995 compact car, Excel. Over time, Hyundai targeted the higher-income segment. It introduced the revamped Sonata sedan and Tucson with prices comparable to that of Toyota and Honda.[9]

However, not all companies that use income segmentation target the affluent. Many retailers successfully target budget-conscious groups. In Hong Kong, there are discount garment shops, as well as food and grocery outlets, that cater to the Filipino and Indonesian domestic helper market.

Income segmentation
Dividing a market into different income groups.

Hyundai's Excel targets at the lower-income segment, while the Sonata and Tucson target at the higher-income segments.

Psychographic segmentation
Dividing a market into different groups based on social class, lifestyle, or personality characteristics.

Psychographic Segmentation

Psychographic segmentation divides buyers into different groups based on social class, lifestyle, or personality characteristics. People in the same demographic group can have very different psychographic makeups.

In Chapter 5, we discussed how the products people buy reflect their *lifestyles*. As a result, marketers often segment their markets by consumer lifestyles and base their marketing strategies on lifestyle appeals. For example, Charles & Keith, a fashion footwear boutique from Singapore, markets itself as not only a fashion specialist but also a provider of a new lifestyle. It has created an image of the opulence of the rich and famous.

Marketers also have used *personality* variables to segment markets. For example, marketing for Honda motor scooters *appears* to target hip and trendy 22-year-olds. But it is *actually* aimed at a much broader personality group. One ad, for example, shows a delighted child bouncing up and down on his bed while the announcer says, "You've been trying to get there all your life." The ad reminded viewers of the euphoric feelings they experienced when they broke away from authority and did things their parents told them not to do. Thus, Honda is appealing to the rebellious, independent kid in all of us.[10]

Behavioral segmentation
Dividing a market into groups based on consumer knowledge, attitude, use of, or response to a product.

Behavioral Segmentation

Behavioral segmentation divides buyers into groups based on their knowledge, attitudes, uses of, or responses to a product. Many marketers believe that behavior variables are the best starting points for building market segments.

Marketing research firm Nielsen segmented attitudes toward Internet usage and online purchasing among Malaysia's urban adult population. Based on ownership of home PCs, mobile phones, and PDAs, as well as satellite TV subscription, its research uncovered four better-defined segments. The *eSavvy* are mainly Chinese, young, and tend to come from high-income households. The *Mobiles* have an almost equal proportion of Chinese and Malays in their 20s and 30s, and are from medium-income households. Also from medium-income households are the *Home Bodies*. They are mostly aged 15 to 20, followed by those in their 40s. The *Not Interested* are those in their 50s and largely Malay.[11]

Occasion segmentation
Dividing a market into groups according to occasions when buyers get the idea to buy, actually make their purchase, or use the purchased item.

Occasions

Buyers can be grouped according to: the occasions when they get the idea to buy, when they actually make their purchase, or when they use the purchased item. **Occasion segmentation** can help firms build up product usage. Some holidays, such as Mother's Day, were originally promoted partly to increase the sale of candy, flowers, cards, and other gifts. Marketers also prepare special offers and ads for occasions such as Valentine's Day, Lunar New Year, and Christmas.

Indofood, the world's largest instant-noodle maker by volume, practices occasion segmentation to create "aspirational noodle eaters." It promoted a special edition Valentine's Day box noodle set packed in a pink Chinese takeaway box with cartoon hearts for decoration. There are also "limited edition" Chinese New Year noodles, packed in auspicious red and gold; birthday noodles; and noodles for book launches. Indofood envisages using other occasions like weddings, births, and college graduations to market its products.[12]

Benefits Sought

A powerful form of segmentation is to group buyers according to the different *benefits* they seek from the product. **Benefit segmentation** requires finding the major benefits people look for in the product class, the kinds of people who look for each benefit, and the major brands that deliver each benefit. Eu Yan Sang, a traditional Chinese medicine brand form Malaysia, positions itself as offering natural wellness solutions (see **Real Marketing 7.1**).

Benefit segmentation
Dividing a market into groups according to the different benefits that consumers seek from the product.

The **Indonesian toothpaste market** provides an illustration of benefit segmentation. Market leader Pepsodent, a Unilever brand, offers fluoride toothpaste to keep teeth clean and healthy. Other brands like Close-Up, Ciptadent, and Formula aim to make your breath fresh, heal mouth ulcers, and prevent your mouth from getting dry. Kodomo produces fruit-tasting toothpaste for children. Miswak Utama launched Siwak, a brand containing Saladore Persica, an ingredient thought to be highly effective in tartar removal. Siwak targets Muslims who must clean their mouth before *solat*, the ritual prayers made five times a day. Thus, each segment seeks a different mix of benefits.[13]

User benefits – Indonesians buy Pepsodent seeking the benefit of keeping teeth clean and healthy. Other brands of toothpaste are bought for other benefits such as healing mouth ulcers and keeping breath fresh.

The company must target the benefit segment or segments it can serve best, and most profitably, using appeals that match each segment's benefit preferences.

User Status

Markets can be segmented into non-users, ex-users, potential users, first-time users, and regular users of a product. For example, when Unilever introduced deodorant in China, it had to explain to non-users why they should buy the product. Many Chinese do not recognize the need for deodorant as they believe that people do not suffer from body odor. Hence, Unilever had to educate non-users to convert them to new users.[14] Different user groups require different marketing appeals. Blood banks cannot only rely on regular donors but must also recruit new donors and remind occasional donors to donate.

Included in the potential user group are consumers facing life-stage changes—such as newlyweds and new parents—who can be turned into heavy users. For example, P&G acquires the names of parents-to-be and showers them with product samples and ads for Pampers and its other baby products to capture a share of their future purchases. It invites them to visit Pampers.com and join MyPampers.com, giving them access to expert parenting advice, Parent Pages email newsletters, and coupons and special offers.

Usage Rate

Markets can also be segmented into light, medium, and heavy product users. Heavy users are often a small percentage of the market but account for a high percentage of total consumption.

Loyalty Status

A market can also be segmented by consumer loyalty. Consumers can be loyal to brands (Samsung), stores (Isetan), and companies (Toyota). Buyers can be divided into groups according to their degree of loyalty. Some consumers are completely loyal—they buy the same brand all the time.

Real Marketing 7.1

Leading Growth in a Family Business: Learning from Eu Yan Sang

Eu Yan Sang is leveraging its knowledge of traditional Chinese medicine into the natural wellness market.

After more than 100 years in business, Eu Yan Sang continues to grow under the leadership of fourth-generation family leader, Richard Eu.

What started as a provision shop in northern Malaysia, offering Chinese herbs as an alternative to opium for workers in his great grandfather's tin mine, has today grown into a respected international brand in Traditional Chinese Medicine (TCM). Since it was publically listed in 2000, Eu Yan Sang has delivered double digit growth. In its core markets of Singapore, Malaysia, and Hong Kong—the business enjoys the largest market share in its sector.

Like many companies, growth is coming from China, and today the business is evolving from a Chinese medicine business to a broader enterprise focused on total wellbeing.

When making business decisions, the company business has to come first and decisions should be based on what's best for the company. But as major shareholders of the business, family members must align themselves before going to the board which prevents family disagreements that can take them off course.

At Eu Yan Sang, family members on the board represent different parts of the family and through an annual retreat they arrive at an agreement that is taken to the board. This process is particularly important after a few generations of family ownership when ownership is dispersed over a large number of family members.

Eu Yan Sang has long taken the position that they are not just a TCM company. Their vision going forward is to leverage knowledge of TCM into the wider space of natural wellness. As a result of this vision, they bought an Australian chain of health food stalls. This acquisition provides an opportunity to bring their TCM knowledge into a more Western market as a test case for moving into other Western countries. By buying into a readymade market, they were able to speed up the learning process.

This long-term perspective helps to avoid the boom-splat cycles of growth that beleaguer many non-family owned corporations.

Understanding and adapting to local tastes and preferences is key to the success of Eu Yan Sang. While it is very granular in its understanding of local market needs, it also aims to create a differentiated buying experience for its customers. Assistants in their shops are trained to look after the needs of customers by sharing their deep product knowledge but also encouraged to not be too "pushy." By being very clear on what is core, the company can promote constancy where it's needed—and difference where this is more appropriate.

In spite of his background as an investment banker, Richard has been slow to drive acquisitive growth and he is quick to highlight the challenges of making them work. He acknowledges the difficulty in managing cultural differences in a merger or acquisition—differences that become even larger when done across borders.

They acquired a company—in this instance, a retail chain in Australia called Healthy Life, which they fully own. For Eu Yan Sang, this also represents an opportunity to learn how to sell its products to non-Chinese consumers. Clearly, another long-term strategy that is building key capabilities needed for future growth.

Often, leaders taking their business beyond the domestic market can be seen as arrogant. They assume they have figured out everything about the foreign market within a short span of time, and are quick to let other players know this.

Richard embodies the balance of confidence and humility of a growth leader. On one hand, he is a confident leader of long-term growth. When family members sold the business to a public investor, he took back control. He drove Eu Yan Sang into new markets with new channels and new products. He bought into businesses as both a minority and majority shareholder.

However, he is humble when he speaks. He talks about the importance of beginning with humility in order to fully understand local conditions. Leaders must be patient and not expect overnight success. As Richard says, "you must start from a position of humility, but at the same time you must be very confident in your own abilities." This is good advice for all growth leaders.

Source

Adapted from Alison Eyring, "Leading Growth in a Family Business: Learning from Eu Yan Sang," *Think Business*, 19 March 2013. Partially reproduced with permission from Think Business, NUS Business School, National University of Singapore (http://thinkbusiness.nus.edu). Copyright NUS Business School.

Other consumers are somewhat loyal—they are loyal to two or three brands of a given product or favor one brand while sometimes buying others. Still other buyers show no loyalty to any brand. They either want something different each time they buy or they buy whatever's on sale (see **Figure 7.2**).

FIGURE 7.2
Types of customer loyalty

A company can learn a lot by analyzing loyalty patterns in its market. It should start by studying its own loyal customers and trying to understand what appeals to them. Then, by studying its less loyal buyers, the company can detect which brands are most competitive with its own. Finally, by looking at customers who are shifting away from its brand, the company can learn about its marketing weaknesses.

Using Multiple Segmentation Bases

Marketers are increasingly using multiple segmentation bases to identify smaller, better-defined target groups. Thus, a bank may not only identify a group of wealthy retired adults but also, within that group, distinguish several segments based on their assets, savings and risk preferences, housing, and lifestyles.

Such segmentation provides a powerful tool for marketers. It helps companies identify and better understand key customer segments, target them more efficiently, and tailor market offerings and messages to their specific needs.

Segmenting Business Markets

Consumer and business marketers use many of the same variables to segment their markets. Business buyers can be segmented geographically, demographically (for example, by industry or company size), or by benefits sought, user status, usage rate, and loyalty status. Yet business marketers also use some additional variables such as customer *operating characteristics*, *purchasing approaches*, *situational factors*, and *personal characteristics*. By going after segments instead of the whole market, companies can deliver just the right value proposition to each segment served and capture more value in return.

Within a given target industry and customer size, a company can segment a business market according to purchase approaches and criteria. As with consumer segmentation, many marketers believe that *buying behavior* and *benefits* provide the best basis for segmenting business markets.

Segmenting International Markets

Although some large companies, such as Coca-Cola or Sony, sell products in more than 200 countries, most international firms focus on a smaller set. Operating in many countries presents new challenges. Countries can vary greatly in their economic, cultural, and political makeup. Thus, just as they do within their domestic markets, international firms need to group their world markets into segments with distinct buying needs and behaviors.

Companies can segment international markets using one or a combination of several variables. They can segment by *geographic location*, grouping countries by regions such as Western Europe, North Asia, East Asia, or the Middle East. Geographic segmentation assumes that nations close to one another will have many common traits and behaviors. Although this is often the case, there are many exceptions. For example, although Malaysia and Singapore have much in common, both differ culturally and economically from neighboring Thailand. Even within a region, consumers can differ widely. For example, Chinese consumers in Beijing are different from those in Shanghai or Hong Kong. Japanese consumers behave very differently from their Taiwanese counterparts.

❯ Chinese consumers in Beijing may behave differently from consumers in Shanghai, Hong Kong, Singapore, and Taiwan.

World markets can also be segmented on the basis of *economic factors*. For example, countries might be grouped by population income levels or by their overall level of economic development. A country's economic structure shapes its population's product and service needs and, therefore, the marketing opportunities it offers. Countries can be segmented by *political and legal factors* such as the type and stability of government, receptivity to foreign firms, monetary regulations, and the amount of bureaucracy present. Such factors can play a crucial role in a company's choice of which countries to enter and how. *Cultural factors* can also be used, grouping markets according to common languages, religions, values and attitudes, customs, and behavioral patterns.

Segmenting international markets based on geographic, economic, political, cultural, and other factors assumes that segments should consist of clusters of countries. However, many companies use a different approach called **intermarket segmentation.** They form segments of consumers who have similar needs and buying behaviors even though they are located in different countries.

Intermarket segmentation
Forming segments of consumers who have similar needs and buying behavior even though they are located in different countries.

For example, teenagers have shown to be similar across the globe. Sony, adidas, Nike, and many other firms actively target global teens. For example, adidas' "Impossible Is Nothing" theme appeals to teens the world over.[15]

› Intermarket segmentation – Teens show surprising similarity no matter where they live—these teens could be from almost anywhere. Thus, many companies target teens with worldwide marketing campaigns.

Requirements for Effective Segmentation

Clearly, there are many ways to segment a market, but not all segmentations are effective. To be useful, market segments must be:

- *Measurable.* The size, purchasing power, and profiles of the segments can be measured. Certain segmentation variables, however, are difficult to measure. For example, there are millions of left-handed people in the world. Yet few products are targeted towards this left-handed segment. The major problem may be that the segment is hard to identify and measure. There is no data on the demographics of lefties.
- *Accessible.* The market segments can be effectively reached and served. Suppose a fragrance company finds that heavy users of its brand are single men and women who stay out late and socialize a lot. Unless this group lives or shops at certain places and is exposed to certain media, its members will be difficult to reach.
- *Substantial.* The market segments are large or profitable enough to serve. A segment should be the largest possible homogenous group worth pursuing with a tailored marketing program. It would not be profitable, for example, for an automobile manufacturer to develop cars targeted towards people whose height is greater than 1.9 meters.
- *Differentiable.* The segments are conceptually distinguishable and respond differently to different marketing mix elements and programs. If married and unmarried women respond similarly to a sale on perfume, they do not constitute separate segments.
- *Actionable.* Effective programs can be designed for attracting and serving the segments. For example, although one small airline identified seven different market segments, it had too few staff to develop separate marketing programs for each segment.

Market Targeting

Market segmentation reveals the firm's market segment opportunities. The firm must now evaluate the various segments and decide how many and which segments it can serve best. We now look at how companies evaluate and select target segments.

Evaluating Market Segments

In evaluating different market segments, a firm must look at three factors:

- *Segment size and growth*. The company must collect and analyze data on current segment sales, growth rates, and expected profitability for various segments. For example, Japanese convenience store chain (or *konbini*) Natural Lawson targeted urban women. However, with a declining birthrate and ageing society, Lawson is now targeting seniors who traditionally do not use *konbinis* as often. It changed its merchandise assortment to cater to a wider customer profile. The font on its logo now comes in a feminine serif typeface. Instead of a neon glare, there's soft recessed lighting; natural woods are used instead of synthetics; there's a checkout counter with a lifestyle-and-health décor, and in some stores, a bar counter area for lounging. Some staff have also been trained to dispense health information.[16]

❯ Convenience store Lawson changed its merchandise assortment to meet the needs of an ageing Japanese society.

Similarly, for one campaign, Canon targeted its DSLR cameras at women, a growing segment. It found that about 25 percent of its DSLR camera users were women and that they were the new growing market segment. Hence, its "Be Empowered" campaign was launched, targeting women primarily, and youths secondarily. In Singapore, activities that have been organized include a photography seminar for women only. Its advertising campaign was fronted by famous professional female photographers.

- *Segment structural attractiveness*. The company needs to examine major structural factors that affect long-run segment attractiveness.[17] For example, a segment is less attractive if it already contains many strong and aggressive *competitors*. The existence of many actual or potential *substitute products* may limit prices and the profits that can be earned in a segment. The relative *power of buyers* also affects segment attractiveness. Buyers with strong bargaining power relative to sellers will try to force prices down, demand more services, and set competitors against one another—all at the expense of seller profitability. Finally, a segment may be less attractive if it contains *powerful suppliers* who can control prices or reduce the quality or quantity of ordered goods and services.
- *Company objectives and resources*. Even if a segment has the right size and growth and is structurally attractive, the company must consider its own objectives and resources. Some attractive segments can be dismissed quickly because they do not mesh with the company's long-run objectives. Or the company may lack the skills and resources needed to succeed in an attractive segment. The company should enter only segments in which it can offer superior value and gain advantages over competitors.

Selecting Target Market Segments

Target market
A set of buyers sharing common needs or characteristics that the company decides to serve.

After evaluating different segments, the company must now decide which and how many segments it will target. A **target market** consists of a set of buyers who share common needs or characteristics that the company decides to serve. **Figure 7.3** shows that companies can target segments very broadly (undifferentiated marketing), very narrowly (micromarketing), or somewhere in between (differentiated or concentrated marketing).

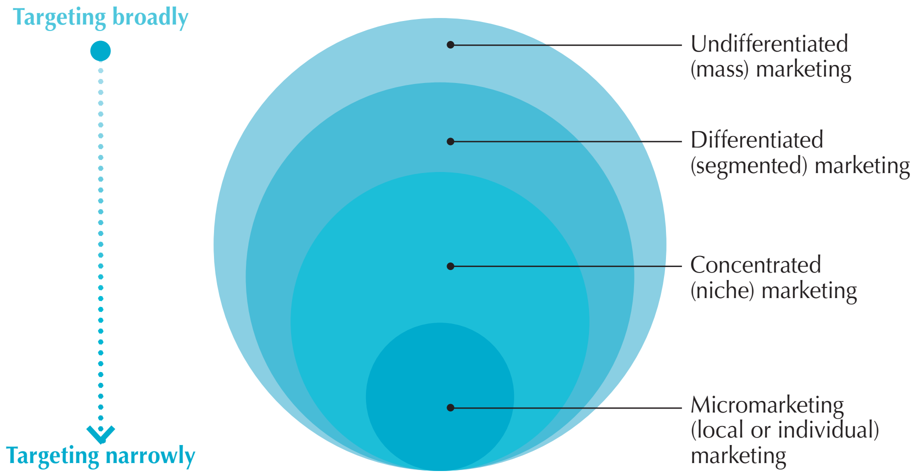


FIGURE 7.3
Target marketing strategies

Undifferentiated Marketing

Using an **undifferentiated marketing** (or **mass-marketing**) strategy, a firm might decide to ignore market segment differences and target the whole market with one offer. This mass-marketing strategy focuses on what is *common* in the needs of consumers rather than on what is *different*. The company designs a product and a marketing program that will appeal to the largest number of buyers.

Most modern marketers have strong doubts about this strategy. Difficulties arise in developing a product or brand that will satisfy all consumers. Moreover, mass marketers often have trouble competing with more focused firms that do a better job of satisfying the needs of specific segments and niches.

Undifferentiated (or mass) marketing
A market-coverage strategy in which a firm decides to ignore market segment differences and go after the whole market with one offer.

Differentiated (or segmented) marketing
A market-coverage strategy in which a firm decides to target several market segments and designs separate offers for each.

Differentiated Marketing

Using a **differentiated marketing** (or **segmented marketing**) strategy, a firm decides to target several market segments and designs separate offers for each. Toyota markets a full range of automobiles for different segments. For example, Yaris and Vios are subcompact brands for new car buyers, the mid-sized Corolla targets families, the upper-mid-sized Camry sedan appeals to executives, while the Lexus luxury make represents its top-end offering.

Toyota practices differentiated marketing by offering different car models for different consumer segments.

By offering product and marketing variations to segments, companies hope for higher sales and a stronger position within each market segment. Developing a stronger position within several segments creates more total sales than undifferentiated marketing across all segments. Estée Lauder's combined brands give it a much greater market share than any single brand could. Similarly, Procter & Gamble markets six different brands of laundry detergent which compete with one another on supermarket shelves but together, capture more market share.

But differentiated marketing also increases the costs of doing business. Developing separate marketing plans for the separate segments requires extra marketing research, forecasting, sales analysis, promotion planning, and channel management. Trying to reach different market segments with different advertising increases promotion costs. Thus, a company must weigh increased sales against increased costs when deciding on a differentiated marketing strategy.

Concentrated Marketing

Concentrated (or niche) marketing
A market-coverage strategy in which a firm goes after a large share of one or a few segments of niches.

A third market-coverage strategy, **concentrated marketing** (or **niche marketing**), is especially appealing when company resources are limited. Instead of going after a small share of a large market, the firm goes after a large share of one or a few smaller segments or niches.

Through concentrated marketing, the firm achieves a strong market position because of its greater knowledge of consumer needs in the niches it serves and the special reputation it acquires. It can market more *effectively* by fine-tuning its products, prices, and programs to the needs of carefully defined segments. It can also market more *efficiently*, targeting its products or services, channels, and communications programs toward only consumers it can serve best and most profitably.

› Nichers – AirAsia started as a nicher by serving Malaysia's intrastate market. As it went international to regional destinations such as Thailand, Vietnam, and China, it outgrew its nicher status.

Whereas segments are fairly large and attract several competitors, niches are smaller and may attract only one or a few competitors. Niching offers smaller companies the opportunity to compete by focusing their limited resources on serving niches that may be unimportant to or overlooked by larger competitors.

Many companies start as nichers to get a foothold against larger, more resourceful competitors, and then grow into broader competitors. For example, AirAsia began by serving intrastate, no-frills commuters in Malaysia but is now threatening former monopoly operator Malaysia Airlines by going international, to regional destinations such as Thailand, Indonesia, Macau, China, Vietnam, and Cambodia.

Today, the low cost of setting up shop on the Internet makes it even more profitable to serve seemingly minuscule niches. Small businesses, in particular, are realizing riches from serving small niches on the Web.

Concentrated marketing can be highly profitable. At the same time, it involves higher-than-normal risks. Companies that rely on one or a few segments for all of their business will suffer greatly if the segment turns sour. Or larger competitors may decide to enter the same segment with greater resources. For these reasons, many companies prefer to diversify in several market segments.

› Innovation – From a nicher in the PC market, Apple invests in innovation that consumers want, resulting in innovations such as the Apple Watch and Apple Pay.

Micromarketing

Differentiated and concentrated marketers tailor their offers and marketing programs to meet the needs of various market segments and niches. At the same time, however, they do not customize their offers to individual customers. **Micromarketing** is the practice of tailoring products and marketing programs to suit the tastes of specific individuals and locations. Rather than seeing a customer in every individual, micromarketers see the individual in every customer. Micromarketing includes *local marketing* and *individual marketing*.

Micromarketing
The practice of tailoring products and marketing programs to the needs and wants of specific individuals and local customer groups. It includes local marketing and individual marketing.

Local marketing
Tailoring brands and promotions to the needs and wants of local customer groups—cities, neighborhoods, and even specific stores.

Local Marketing

Local marketing involves tailoring brands and promotions to the needs and wants of local customer groups—cities, neighborhoods, and even specific stores. Kinokuniya, the Japanese bookstore chain, practices local marketing. In Singapore, its Bugis Junction branch taps into the high-volume youth clientele by carrying comics and books on travel and careers. In contrast, its Ngee Ann City flagship outlet offers upmarket lifestyle activities like tea-making demonstrations, reflecting Kinokuniya's focus on cultural books across different languages.

Local marketing has some drawbacks. It can drive up manufacturing and marketing costs by reducing economies of scale. It can also create logistics problems as companies try to meet the varied requirements of different regional and local markets. Further, a brand's overall image might be diluted if the product and message vary too much in different localities.

Still, as companies face increasingly fragmented markets, and as new supporting technologies develop, the advantages of local marketing often outweigh the drawbacks. Local marketing helps a company to market more effectively in the face of pronounced regional and local differences in demographics and lifestyles. It also meets the needs of the company's first-line customers—retailers—who prefer more fine-tuned product assortments for their neighborhoods.

Local marketing – In Singapore, Japanese bookstore Kinokuniya carries more comics at its Bugis Junction store because of the higher youth traffic; but has more cultural books at its Ngee Ann City store because of the more upmarket clientele.

Individual Marketing

At its extreme, micromarketing becomes **individual marketing**—tailoring products and marketing programs to the needs and preferences of individual customers. Individual marketing has also been labeled *one-to-one marketing*, *mass customization*, and *markets-of-one marketing*. (see **Figure 7.4**)

Individual marketing
Tailoring products and marketing programs to the needs and preferences of individual customers—also called customized marketing, one-to-one marketing, and markets-of-one marketing.

The widespread use of mass marketing has obscured the fact that for centuries consumers were served as individuals: the tailor custom-made the suit, the cobbler designed shoes for the individual, the cabinet maker made furniture to order. Today, however, new technologies are permitting many companies to return to customized marketing. More powerful computers, detailed databases, robotic production and flexible manufacturing, and interactive communication media such as email and the Internet—all have combined to foster "mass customization." Mass customization is the process through which firms interact one to one with masses of customers to design products and services

FIGURE 7.4
Mass production versus individual and self-marketing

tailor-made to individual needs.[18] Dell creates custom-configured computers. Visitors to Nike's NikeID Web site can personalize their sneakers by choosing from hundreds of colors and putting an embroidered word or phrase on the tongue. Companies are customizing their offerings to the needs of individual buyers. Consider this interesting phenomenon in Japan:

Some **Japanese canned drink vending machines** recommend drinks based on a customer's age and gender. Using facial recognition technology, these machines have large touch-panel screens with sensors that can determine the characteristics of an approaching customer. If the customer is a man, the machine will recommend a canned coffee drink. If it is a young woman, it will recommend a tea drink or a slightly sweeter alternative. The recommended drink will vary also depending on the temperature and time. Such customized recommendations have seen sales triple from that of regular vending machines.

❯ Some vending machines in Japan employ facial recognition technology to recommend drinks depending on a customer's age and gender.

Business-to-business marketers are also finding new ways to customize their offerings. For example, John Deere manufactures seeding equipment that can be configured in more than 2 million versions to individual customer specifications. The seeders are produced one at a time, in any sequence, on a single production line.

Mass customization provides a way to stand out against competitors. Unlike mass production, which eliminates the need for human interaction, one-to-one marketing has made relationships with customers more important than ever. Just as mass production was the marketing principle of the 20th century, interactive marketing is becoming a marketing principle for the 21st century.

Choosing a Targeting Strategy

Companies need to consider many factors when choosing a market targeting strategy (see **Table 7.2**):

- *Company resources*. When a firm's resources are limited, concentrated marketing makes the most sense.

TABLE 7.2 Factors Influencing Targeting Strategy

		Concentrated marketing	Undifferentiated marketing	Differentiated marketing
Company resources	Finite	✔	✔	
	Vast			✔
Product variability	Limited		✔	
	High	✔		✔
Product's life-cycle stage	Introduction	✔	✔	
	Maturity			✔
Market variability	Low		✔	
	High			✔
Competitors' marketing strategies	Undifferentiated	✔		✔
	Differentiated		✘	✔

- *Product variability*. Undifferentiated marketing is more suited for uniform products such as grapefruit or steel. Products that can vary in design, such as cameras and automobiles, are more suited to differentiation or concentration.
- *Product's life-cycle stage*. When a firm introduces a new product, it may be practical to launch only one version. In this case, undifferentiated marketing or concentrated marketing may make the most sense. In the mature stage of the product life cycle, however, differentiated marketing begins to make more sense.
- *Market variability*. If most buyers have the same tastes, buy the same amounts, and react the same way to marketing efforts, undifferentiated marketing is appropriate.
- *Competitors' marketing strategies*. When competitors use differentiated or concentrated marketing, undifferentiated marketing can be suicidal. Conversely, when competitors use undifferentiated marketing, a firm can gain an advantage by using differentiated or concentrated marketing.

Socially Responsible Target Marketing

Smart targeting helps companies to be more efficient and effective by focusing on the segments that they can satisfy best and most profitably. Targeting also benefits consumers—companies reach specific groups of consumers with offers carefully tailored to satisfy their needs. However, target marketing sometimes generates controversy and concern. The biggest issues usually involve the targeting of vulnerable or disadvantaged consumers such as children with controversial or potentially harmful products.

The meteoric growth of the Internet and other carefully targeted direct media has raised fresh concerns about potential targeting abuse. The Internet provides for an increasing refinement of audiences and, in turn, more precise targeting. This might allow makers of questionable products or deceptive advertisers to more readily victimize the most vulnerable audiences. Unscrupulous marketers can now send deceptive tailor-made messages directly to the computers of millions of unsuspecting consumers.

Marketers are using sophisticated analytical techniques to track consumers' digital movements and to build detailed customer profiles containing highly personal information. Such profiles can then be used to hypertarget individual consumers with personalized brand messages and offers. Hypertargeting can benefit both marketers and consumers, getting the right brand information is not the hands of the right customers. However, taken too far or used wrongly, hypertargeting can harm consumers more than benefit them. Marketers must use these new targeting tools responsibly (see **Real Marketing 7.2**).

Thus, in target marketing, the issue is not really *who* is targeted but rather *how* and for *what*. Controversies arise when marketers attempt to profit at the expense of targeted segments—when they unfairly target vulnerable segments or target them with questionable products or tactics.

Differentiation and Positioning

The company must also decide on a *value proposition*—on how it will create differentiated value for targeted segments and the positions it wants to occupy in those segments. A **product's position** is the way the product is *defined by consumers* on important attributes—the place the product occupies in consumers' minds relative to competing products. "Products are created in the factory, but brands are created in the mind," says a positioning expert.[19]

Product position
The way the product is defined by consumers on important attributes—the place the product occupies in consumers' minds relative to competing products.

Real Marketing 7.2

Hypertargeting: Walking a Fine Line between Serving Customers and Stalking Them

How well does your smartphone know you? What stories could your laptop tell? In truth, your digital devices probably know more about you than you know about yourself. Smartphones and other digital equipment have become fundamental extensions of our lives. Whatever you do—at work, at play, while socializing, while shopping—your phone, tablet, laptop, or desktop is almost always a part of the action. These devices go where you go, entertain you, connect you with friends, take you browsing and shopping, feed you news and information, and listen in on even your most intimate voice, text, and e-mail conversations. They know where you live, with whom you interact, what you search for, what you buy, and what you do for fun. And more and more, these devices are sharing all that personal information with marketers, who in turn use it to create hypertargeted brand messages and promotions, crafted just for you.

In the old days (really only a year or two ago) marketers gathered information about consumers' digital doings using cookies—those small bits of data sent from Web sites or third parties and stored in user's Web browsers. But cookies don't work with mobile devices and apps. So as mobile and app usage has soared, and as cookie-blocking technologies have improved, marketers have sought new ways to track consumers as they move about digitally.

As a result, companies have now developed sophisticated new ways to extract intimate insights about consumers that border on wizardry. For example, a string of high-tech mobile advertising service start-ups—with intriguing names such as Drawbridge, Flurry, Velti, and SessionM—are developing technologies that can put together amazingly detailed profiles of smartphone users—who they are, where they go, what they do, who they know, and what they like and don't like. For brands and marketers, such information is pure gold.

The mobile advertising companies use different methods to track consumers. Drawbridge creates partnerships with online publishers and advertising exchanges to track online activity—every time a user visits a Web site or uses a mobile app, the partners send a notification to Drawbridge. In contrast, Flurry works with publishers to embed its software directly into their apps—so far, its software can be found in 350,000 apps on more than 1.2 billion devices. The companies then apply statistical modeling to analyze the mountain of data they collect, assign identifiers to individual users, and ferret out user characteristics and behavior patterns.

And here's the real wizardry: By tracking individual digital activity, the services can link several different devices—a smartphone, home computer, work computer, and tablet—to the same person, even if the devices themselves aren't connected. Every person's data profile is unique—kind of like a fingerprint. So Drawbridge, Flurry, and the other services can use the profiles to identify individuals no matter what device they are using.

For example, suppose every morning you check your Snapchat posts while in bed, using your smartphone. Then, while eating breakfast at the kitchen table, you use your laptop to browse through the latest entertainment news on TMZ and to check a few social media sites. Between your morning classes, you use your phone to text friends and your tablet to do a little online browsing. In the afternoon, during breaks at your job, you use a company desktop to monitor your favorite sites and make a purchase at Amazon.com. At home that evening, you catch up on your favorite TV shows, exchange messages with friends, and do some online research for a class project, jumping back and forth between your phone, tablet, and laptop.

The entire time, it is very likely that the information brokers are peering over your shoulder. Based on your unique pattern of browsing and carousing, one of the data services may have identified your unique digital fingerprint. Not surprisingly, when you're signed into Google, Facebook, or Amazon.com, those companies can track your activities on their sites across devices. But companies like Drawbridge, once they've figured out a pattern, can follow you across all activities and devices even if you aren't logged in.

This uncanny ability to follow unique users across devices allows mobile advertising services, like

Drawbridge and Flurry, to help marketers craft mobile ads and promotions that reach carefully targeted users with exactly the right message at just the right moment. So if you use your work computer to check on airline tickets to travel home for the holidays, that night you might see an Expedia ad on your phone offering a low price on a ticket for that same route and date. Drawbridge can define user profiles so precisely that it can often distinguish between different family members using the same devices and then target ads accordingly. Such targeting accuracy has attracted a host of blue chip brands to Drawbridge and similar services, from Expedia, Ford, and Fidelity Investments to Quiznos and Groupon.

Marketers argue that all of this up-closeand-personal information and hypertargeting better serves both customers and a company. Customers receive tailored, relevant information and offers from brands that really interest them. However, many consumer privacy advocates are concerned that such intimate information in the hands of unscrupulous marketers or other parties could result in more harm or concern than benefit to consumers. Even responsible marketers worry that customers will be put off by what they view less as "getting to know me better to serve me better" and more as "stalking" and "profiling." Companies like Drawbridge are careful in how they position their services. They don't call it tracking. "Tracking is a dirty word," says a Drawbridge executive. Instead, Drawbridge is "observing your behaviors and connecting your profile to mobile devices," he says elliptically.

Some information seems far too sensitive for use in hypertargeting. For example, targeting based on health, financial, or personal activity profiles could cause consumers embarrassment, discomfort, or damage. Consider revelations about certain prescription drug medications, financial planning or debt counseling, or private leisure activities. For instance, imagine having a taboo ad pop up on your work computer while your boss is looking over your shoulder, or while you are making a presentation to colleagues. Or consider that someone targeting customized ads based on your travel plans also knows when your home will likely be unattended. And who's to protect the privacy of children and other vulnerable groups and shield them from the advances of overzealous marketers? Although most consumers are willing to share some personal information if it means getting better service or deals, many consumers worry that marketers might go too far.

Thus, with today's super-sophisticated behavioral targeting tools, marketers walk a fine line between serving consumers and stalking them. Most marketers want to do the right thing with hypertargeting—focusing on the right customers with personalized offers that meet their exacting needs. They want to build trusted relationships with customers by serving them faithfully, not by harming them. However, responsible hypertargeting calls for proactively guarding the rights and sensitivities of those being targeted. Marketers who cross the line risk the wrath of advocates, legislators, and the consumers themselves.

Sources

Kate Kay, "Three Big Privacy Changes to Plan for in 2014," *Advertising Age*, 3 January 2014, http://adage.com/print/290885/; Claire Cain Miller and Somini Sengupta, "Selling Secrets of Phone Users to Advertisers," *New York Times*, 6 October 2013, p. A1; George Fox, "When Online Marketers Target Mobile Device Users, Nothing's Out of Bounds," *ECN Magazine*, 28 October 2013, www.ecnmag.com/blogs/2013/10/when-online-marketerstarget-mobile-device-users-nothing's-out-bounds; and Katy Bachman, "FTC's Ad Regulator Plans to Focus Heavily on Native and Mobile," *Adweek*, 5 January 2014, www.adweek.com/print/154693.

For example, in the automobile market, the Honda Fit is positioned on economy, Mercedes on luxury, and BMW on performance. Volvo positions powerfully on safety. And Toyota positions its fuel-efficient, hybrid Prius as a high-tech solution to the energy shortage.

In the sports goods market, Nike and adidas are positioned to appeal to the urban affluent. Both brands have substantial presence in China's prosperous cities and shopping districts. Mid-priced Li Ning, named after its founder who was a top national gymnast, offers the benefit of "brand nationalism"—for Chinese consumers who prefer to buy Chinese products when possible—as a unique positioning.

When seeking how to position a brand, marketers should bear in mind that consumers are overloaded with information about products and services. They cannot re-evaluate products every time they make a buying decision. To simplify the buying process, consumers organize products, services, and companies into categories and "position" them in their minds. A product's position is the complex set of perceptions, impressions, and feelings that consumers have for the product compared with competing products.

Consumers position products with or without the help of marketers. But marketers do not want to leave their products' positions to chance.

› People waiting in line at Shanghai Disney Resort.

Shanghai Disney Resort – Disney opened its Shanghai theme park in June 2016. Unlike its other theme parks, the one in Shanghai is positioned very much for Chinese visitors. Some 80 percent of the park is unique to Shanghai so that the U.S. theme park is positioned as much as a Chinese theme park that educates Chinese guests who have never heard of Disney about this entertainment icon. While other Disney parks typically open to Main Street at the entrance, guests in Shanghai step into Mickey Avenue where they are presented with classic Disney characters to educate them of Disney's heritage. Further down the park, there is Gardens of Imagination with small gardens serving the varying needs of different members from three-generational families, typical in China. On top of Enchanted Storybook Castle rests peonies, China's flower. The gargoyles are in the designs of the 12 animals of the Chinese zodiac. The signature restaurant, The Wandering Moon Teahouse, has rooms designed to represent different areas of China. There is no Adventure Land as that is a concept foreign to the Chinese. When building the Pirates of the Caribbean ride, Disney found that Chinese are not familiar with the original ride but instead identified with the movie, with Captain Jack Sparrow in particular. Hence, unlike the other Pirates of the Caribbean rides, the one in Shanghai features Jack Sparrow and followed the movie rather than the original ride. Finally, The Lion King performance is in Mandarin. The characters not only speak Mandarin, but they do so with a distinct northern Chinese accent. Again, positioned for the Chinese audience, different regional dialects are included with Chinese pop songs. And for the first time, a new character, the Monkey Master, based on Chinese legend Monkey King, is added to the cast for familiarity. He serves to help Simba the lion protagonist in several action scenes. These are efforts by Disney to localize the theme park so that it is positioned as one that is sensitive to Chinese culture and needs.[20]

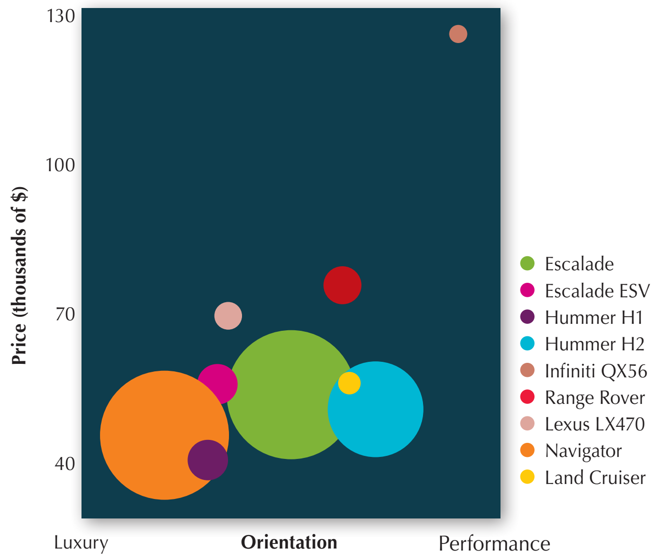


FIGURE 7.5
Positioning map – Large luxury SUVs
Source: Based on data provided by WarsAuto.com and Edmunds.com, 2010.

They must *plan* positions that will give their products the greatest advantage in selected target markets, and they must design marketing mixes to create these planned positions.

Positioning Maps

In planning their differentiation and positioning strategies, marketers often prepare *perceptual positioning maps*, which show consumer perceptions of their brands versus competing products on important buying dimensions. **Figure 7.5** shows a positioning map for the U.S. large, luxury sport utility vehicle (SUV) market.[21] The position of each circle on the map indicates the brand's perceived positioning on two dimensions—price and orientation (luxury versus performance). The size of each circle indicates the brand's relative market share. Thus, customers view the market-leading Cadillac Escalade as a moderately-priced large luxury SUV with a balance of luxury and performance. The Escalade is positioned on urban luxury where "performance" means power and safety, with no mention of off-road adventuring.

By contrast, the Range Rover and the Land Cruiser are positioned on luxury with off-road performance. For example, the Toyota Land Cruiser is designed for tough terrains and climates.

Choosing a Differentiation and Positioning Strategy

Some firms find it easy to choose a differentiation and positioning strategy. For example, a firm well known for quality in certain segments will go for this position in a new segment if there are enough buyers seeking quality. But in many cases, two or more firms will go after the same position. Then, each will have to find other ways to set itself apart. Each firm must differentiate its offer by building a unique bundle of benefits which appeals to a substantial group within the segment.

The differentiation and positioning task consists of three steps:

- *Identifying a set of possible customer value differences* that provide competitive advantages upon which to build a position,

- *Choosing the right competitive advantages*, and selecting an overall positioning strategy, and
- *Effectively communicating and delivering the chosen position* to the market.

Identifying Possible Value Differences and Competitive Advantages

Competitive advantage
An advantage over competitors gained by offering consumers greater value, either through lower prices or by providing more benefits that justify higher prices.

To build profitable relationships with target customers, marketers must understand customer needs better than competitors do and deliver more customer value. To the extent that a company can differentiate and position itself as providing superior value, it gains **competitive advantage**.

But solid positions cannot be built on empty promises. If a company positions its product as *offering* the best quality and service, it must actually differentiate the product so that it *delivers* the promised quality and service. Companies must do much more than simply shout out their positions in ad slogans and taglines. They must first *live* the slogan. For example, "A Great Way to Fly" has been Singapore Airlines' long-time tagline. Its customers thus expect friendly service from its staff, who must deliver this promise consistently in every encounter.

To find points of differentiation, marketers must think through the customer's entire experience with the company's product or service. An alert company can find ways to differentiate itself at every customer contact point. In what specific ways can a company differentiate itself or its market offer? It can differentiate along the lines of *product*, *services*, *channels*, *people*, or *image*.

- *Product differentiation* takes place along a continuum. At one extreme, there are physical products that allow little variation: chicken, steel, aspirin. Yet even here, some meaningful differentiation is possible. For example, different types of eggs such as those with Omega 3 purportedly have less cholesterol than other types. At the other extreme are products that can be highly differentiated, such as automobiles, clothing, and furniture. Such products can be differentiated on features, performance, or style and design.
- *Services differentiation* occurs when the firm offers speedy, convenient, or careful delivery. Taj Hotels in India differentiates on the service it delivers. It has "cyber butlers" in some of its hotels. This allows guests to get connected to the Internet in any part of the hotel.
- *Channel differentiation* allows firms to gain competitive advantage through the way they design their channel's coverage, expertise, and performance. Amazon.com sets itself apart through its smooth-functioning direct channels. Caterpillar's success in the construction equipment industry is based on superior channels. Its dealers worldwide are renowned for their first-rate service.
- *People differentiation* occurs when a firm can hire and train better people than their competitors. Disney staff are known to be friendly and upbeat. And Singapore Airlines enjoys an excellent reputation, largely because of the grace of its flight attendants. People differentiation requires that a company select its customer-contact people carefully and train them well. For example, Disney trains its theme park staff thoroughly to ensure they are competent, courteous, and friendly—from the hotel check-in agents, to the monorail drivers, to the ride attendants, to the people who sweep the park. Each employee is carefully trained to understand customers and to "make people happy."

› People differentiation – Singapore Airlines enjoys an excellent reputation, largely because of the grace of its flight attendants.

- *Image differentiation* occurs when buyers perceive a difference even when competing offers look the same. A company or brand image should convey the product's distinctive benefits and positioning. Developing a strong and distinctive image calls for creativity and hard work. A company cannot develop an image in the public's mind overnight using only a few advertisements. If Shangri-La Hotel is to be synonymous with quality, such an image must be supported by everything the company says and does.

Symbols such as McDonald's golden arches, the Nike swoosh, or Google's colorful logo can provide strong company or brand recognition and image differentiation. The company might build a brand around a famous person, as Nike did with its Air Jordan basketball shoes. Some companies even become associated with colors, such as IBM (blue) or Coca-Cola (red). The chosen symbols, characters, and other image elements must be communicated through advertising that conveys the company's or brand's personality.

Choosing the Right Competitive Advantages

Suppose a company has several potential differentiations that provide competitive advantages. It must now choose the ones on which it will build its positioning strategy. It must decide *how many* differences to promote and *which ones*.

How Many Differences to Promote

Many marketers think that companies should aggressively promote only one benefit to the target market. Ad man Rosser Reeves, for example, said a company should develop a *unique selling proposition* (USP) for each brand and stick to it. Each brand should pick an attribute and tout itself as "number one" on that attribute. Buyers tend to remember this better, especially in our over-communicated society. Thus, Volvo consistently promotes its safety and Wal-Mart promotes its always-low prices.

Other marketers think that companies should position themselves on more than one differentiator. This may be necessary if two or more firms are claiming to be the best on the same attribute. When the mass market is fragmenting into many small segments, companies broaden their positioning strategies to appeal to more segments. For example, in India, Procter & Gamble positioned washing detergent Ariel on a combination of superior cleaning and fragrance. Research conducted by Ariel on the Indian laundry market showed that fragrance in detergents is an important factor of delight for the homemaker in her daily laundry chore. Hence, besides its superior cleaning performance, Ariel also comes in jasmine fragrance or a local mogra fragrance. As companies increase the number of claims for their brands, they risk disbelief and a loss of clear positioning.

Which Differences to Promote

Not all brand differences are meaningful or worthwhile; not every difference makes a good differentiator. Each difference has the potential to create company costs as well as customer benefits. A difference is worth establishing to the extent that it satisfies the following criteria:

- *Important*. The difference delivers a highly valued benefit to target buyers.
- *Distinctive*. Competitors do not offer the difference, or the company can offer it in a more distinctive way.
- *Superior*. The difference is superior to other ways in which customers might obtain the same benefit.
- *Communicable*. The difference is communicable and visible to buyers.

- *Pre-emptive*. Competitors cannot easily copy the difference.
- *Affordable*. Buyers can afford to pay for the difference.
- *Profitable*. The company can introduce the difference profitably.

Many companies have introduced differentiations that failed in one or more of these tests. When the then Westin Stamford Hotel in Singapore advertised that it was the world's tallest hotel, it was a distinction that was not important to most tourists—in fact, it turned many off. Thus, choosing competitive advantages upon which to position a product or service can be difficult, yet such choices may be crucial to success. Here's an example of a competitive advantage that worked:

› Targeted at Malay women who do not want to compromise on their Islamic values, Safi Rania Gold is positioned as a skin care product that uses gold as an effective skin treatment ingredient. This positioning worked.

Safi is the leading *halal* personal care brand in Malaysia, targeted at Malay women aged 30 and above looking for anti-ageing skin care solutions without having to compromise on their Islamic values. All Safi products are made from the purest of natural ingredients and are free from any ingredients of animal origin or alcohol. Safi has been successful in positioning itself on qualities that are important and distinctive to its target market. In launching Safi Rania Gold, gold was chosen because it is a familiar element to the Malays. In the Malay tradition, gold is one of the ingredients used for *susuk*—a traditional Malay beauty treatment. This practice pre-dates the Islamization of the region and is deemed *haram* or forbidden by modern Islamic scholars. Safi took this insight as an opportunity to introduce a skin care concept that emphasizes gold and yet is *halal*, and draws on consumer belief that gold is a potentially effective skin treatment ingredient. The 24-carat gold comes in a nano size that is small enough to penetrate the second layer of the skin to make it firmer and prevent the formation of wrinkles. And because of its nano size, the gold does not accumulate under the skin. Safi took on the task of explaining how the product works and obtained a *halal* endorsement from the Malaysian Islamic Body of Halal Certification.

Selecting an Overall Positioning Strategy

Value proposition
The full positioning of a brand—the full mix of benefits upon which it is positioned.

The full positioning of a brand is called the brand's **value proposition**—the full mix of benefits upon which the brand is differentiated and positioned. It is the answer to the customer's question "Why should I buy your brand?" Volvo's value proposition hinges on safety but also includes reliability, roominess, and style, all for a price that is higher than average but seemingly fair for this mix of benefits.

Figure 7.6 shows possible value propositions upon which a company might position its products. In the figure, the five green cells represent winning value propositions—differentiation and positioning that gives the company competitive advantage. The blue cells, however, represent losing value propositions. The center yellow cell represents at best a marginal proposition. In the following sections, we discuss the five winning value propositions upon which companies can position their products: more for more, more for the same, the same for less, less for much less, and more for less.

More for More

"More for more" positioning involves providing the most upscale product or service and charging a higher price to cover the higher costs. Not only does this offering

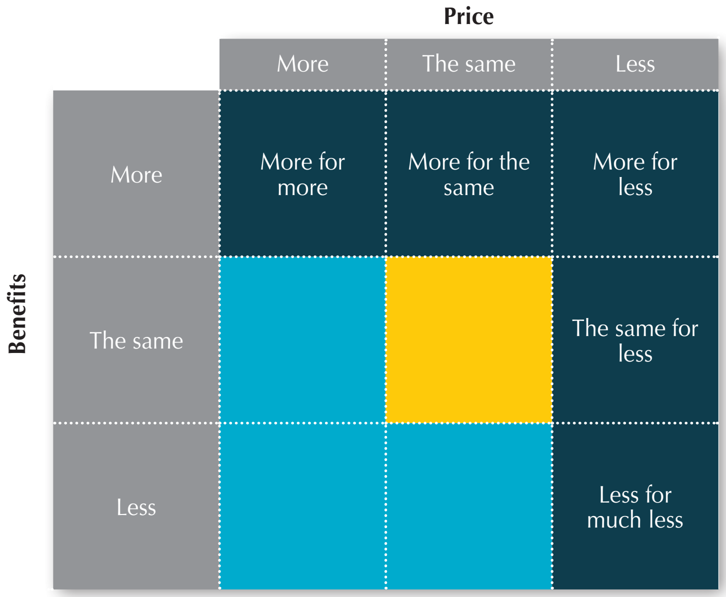


FIGURE 7.6
Possible value propositions

give higher quality, it also gives prestige to the buyer. Ritz-Carlton Hotels, Mont Blanc writing instruments, and Mercedes automobiles—each claims superior quality, craftsmanship, durability, performance, or style, and charges a price to match. When Apple premiered its iPhone, it offered higher-quality features than a traditional mobile phone, with a hefty price tag to match.

Marketers of Hearts On Fire diamonds have created a more-for-more niche as "The World's Most Perfectly Cut Diamonds." Hearts On Fire diamonds have a unique "hearts and arrow" design. When viewed under magnification from the bottom, a perfect ring of eight hearts appears' from the top comes a perfectly formed fireburst of light. Hearts On Fire diamonds aren't for everyone, says the company. The company commands a 15 to 20 percent price premium over comparable competing diamonds.

With its unique "hearts and arrow" design, the Hearts of Fire diamonds uses a more-for-more niche strategy by charging a premium over its competitors.

More for the Same

Companies can attack a competitor's "more for more" positioning by introducing a brand offering comparable quality at a lower price. For example, Toyota introduced its Lexus line with a "more for the same" value proposition versus Mercedes and BMW. Its first U.S. ad headline read: "Perhaps the first time in history that trading a $72,000 car for a $36,000 car could be considered trading up." It communicated the high quality of its new Lexus through rave reviews in car magazines and through a widely distributed videotape showing side-by-side comparisons of Lexus and Mercedes automobiles. It published surveys showing that Lexus dealers were providing customers with better sales and service experiences than were Mercedes dealerships. Many Mercedes owners switched to Lexus, and the Lexus repurchase rate rose to 60 percent, twice the industry average.

The Same for Less

Offering "the same for less" can be a powerful value proposition—everyone likes a good deal. Discount stores such as Wal-Mart also use this positioning. They offer many of the same brands as department stores and specialty stores but at deep discounts based on superior purchasing power and lower-cost operations. Other companies develop imitative but lower-priced brands in an effort to lure customers away from the market leader. For example, China's Huawei Technology sells reliable, low-cost switches and routers which resemble Cisco's.

Less for Much Less

Less for much less – Nok Air's budget airline fares offer value-for-money positioning.

A market almost always exists for products that offer less and therefore cost less. Few people need, want, or can afford "the very best" in everything they buy. In many cases, consumers will gladly settle for less than optimal performance for a lower price. For example, many travelers seeking lodging prefer not to pay for what they consider unnecessary extras, such as a pool, attached restaurant, or mints on the pillow. Hotel chains such as Ramada Limited suspend some of these amenities and charge less accordingly.

"Less for much less"—this positioning involves meeting consumers' lower performance or quality requirements at a much lower price. Daiso, the Japanese chain, offers all merchandise at the rock-bottom price of $1.60. Budget airlines such as Nok Air and Tiger Airways also practice "less for much less" positioning.

More for Less

Of course, the winning value proposition would be to offer "more for less." Many companies claim to do this. And, in the short run, some companies can actually achieve such lofty positions. But in the long run, companies will find it very difficult to sustain such "best of both worlds" positioning. Offering more usually costs more, making it difficult to deliver on the "for less" promise. Companies that try to deliver both may lose out to more focused competitors.

All said, each brand must adopt a positioning strategy designed to serve the needs and wants of its target markets. "More for more" will draw one target market, while "less for much less" will draw another, and so on. Thus, in any market, there is usually room for many different companies, each successfully occupying different positions. The important thing is that each company must develop its own winning positioning strategy—one that makes it special to its target consumers.

Developing a Positioning Statement

Positioning statement
A statement that summarizes company or brand positioning—it takes the form: To (target segment and need) our (brand) is (concept) that (point of difference).

Company and brand positioning should be summed up in a **positioning statement**. The statement should follow the form: *To (target segment and need) our (brand) is (concept) that (point of difference).*[22] For example:

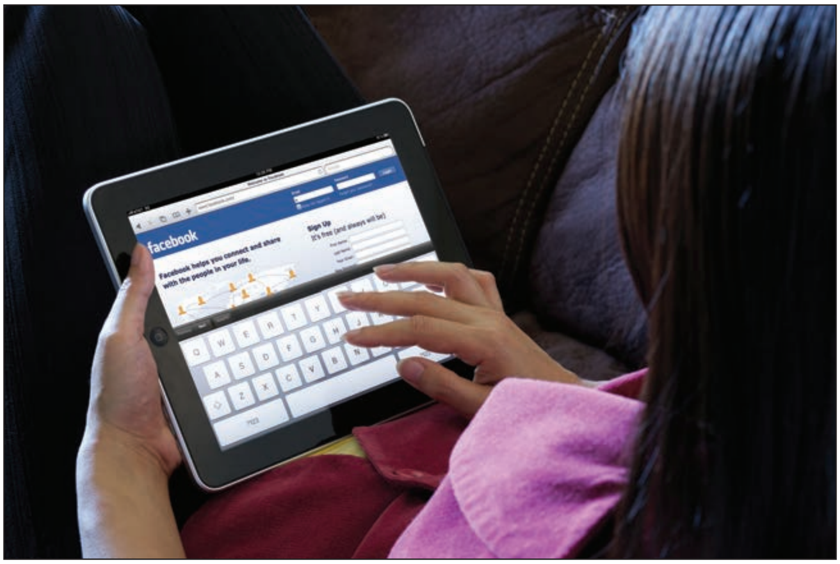
> *"To busy, mobile people who need to always be in the loop, the iPad is a multi-touch screen wireless connectivity solution that provides the best way to experience the Web, email, photos, and videos with just the touch of a finger."*

Note that the positioning first states the product's membership in a category (iPad is a wireless connectivity solution) and then shows its point of difference from other members of the category (connects the Web, email, photos, and video). Placing a brand in a specific category suggests similarities that it might share with other products in the category. But the case for a brand's superiority is made based on its points of difference.

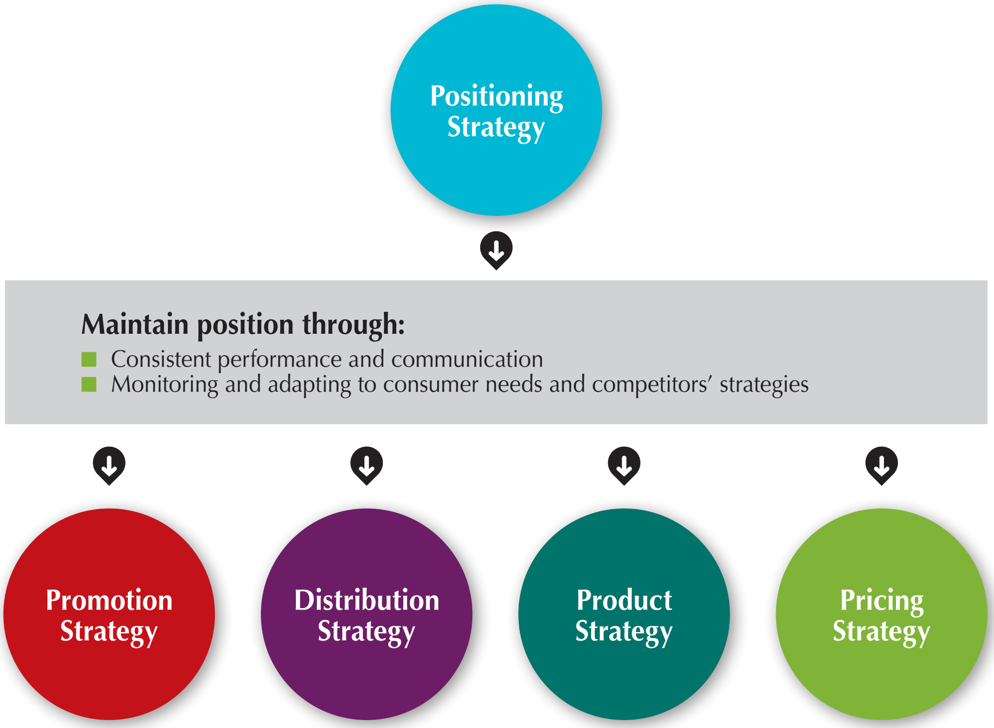
Communicating and Delivering the Chosen Position

Once it has chosen a position, the company must take strong steps to deliver and communicate the desired position to target consumers. All the company's marketing mix efforts must support the positioning strategy.

❯ A possible positioning for the iPad is that it gives busy, mobile people who need to be in the loop, a multi-touch screen wireless connectivity solution, providing the best way to experience the Web, email, photos, and videos with the touch of a finger.



Positioning the company calls for concrete action. If the company decides to build a position on better quality and service, it must first *deliver* that position. Designing the marketing mix—product, price, place, and promotion—involves working out the tactical details of the positioning strategy (see **Figure 7.7**). Thus, a firm that seizes on a "more for more" position knows that it must produce high-quality products, charge a high price, distribute through high-quality dealers, and advertise in high-quality media. It must hire and train more service people, find retailers who have a good reputation for service, and develop sales and advertising messages that broadcast its superior service. This is the only way to build a consistent and believable "more for more" position.



◗ FIGURE 7.7
A company's marketing mix efforts must support the positioning strategy

Companies often find it easier to come up with a good positioning strategy than to implement it. Establishing a position or changing one usually takes a long time. In contrast, positions that have taken years to build can quickly be lost. Once a company has built the desired position, it must take care to maintain the position through consistent performance and communication. It must closely monitor and adapt the position over time to match changes in consumer needs and competitors' strategies. However, the company should avoid abrupt changes that might confuse consumers. Instead, a product's position should evolve gradually as it adapts to the ever-changing marketing environment.

Reviewing Objectives and Key Terms

In this chapter, you learned about the major elements of a customer-driven marketing strategy: segmentation, targeting, differentiation, and positioning. Marketers know that they cannot appeal to all buyers in their markets, or at least, not to all buyers in the same way. Therefore, most companies today practice *target marketing*—identifying market segments, selecting one or more of them, and developing products and marketing mixes tailored to each.

OBJECTIVE 1 Define the major steps in designing a customer-driven marketing strategy: market segmentation, targeting, differentiation, and positioning. (pp. 207–209)

A customer-driven marketing strategy begins with selecting which customers to serve and determining a value proposition that best serves the targeted customers. It consists of four steps.

Market segmentation is the act of dividing a market into distinct segments of buyers with different needs, characteristics, or behaviors who might require separate products or marketing mixes. Once the groups have been identified, *market targeting* evaluates each market segment's attractiveness and selects one or more segments to serve. Market targeting consists of designing strategies to build the *right relationships* with the *right customers*. *Differentiation* involves actually differentiating the market offering to create superior customer value. *Positioning* consists of positioning the market offering in the minds of target customers.

OBJECTIVE 2 List and discuss the major bases for segmenting consumer and business markets. (pp. 209–220)

There is no single way to segment a market. Therefore, the marketer tries different variables to see which give the best segmentation opportunities. For consumer marketing, the major segmentation variables are geographic, demographic, psychographic, and behavioral. In *geographic segmentation*, the market is divided into different geographical units, such as nations, regions, states, counties, cities, or even neighborhoods. In *demographic segmentation*, the market is divided into groups based on demographic variables, including age, gender, family size, family life cycle, income, occupation, education, religion, race, generation, and nationality. In *psychographic segmentation*, the market is divided into different groups based on social class, lifestyle, or personality characteristics. In *behavioral segmentation*, the market is divided into groups based on consumers' knowledge, attitudes, uses, or responses to a product. Business marketers use many of the same variables to segment their markets. But business markets also can be segmented by business *demographics* (industry, company size), *operating characteristics*, *purchasing approaches*, *situational factors*, and *personal characteristics*. The effectiveness of the segmentation analysis depends on finding segments that are *measurable*, *accessible*, *substantial*, *differentiable*, and *actionable*.

OBJECTIVE 3 Explain how companies identify attractive market segments and choose a market-targeting strategy. (pp. 221–228)

To target the best market segments, the company first evaluates each segment's size and growth characteristics, structural attractiveness, and compatibility with company objectives and resources. It then chooses one of four market-targeting strategies, ranging from very broad to very narrow targeting. The seller can ignore segment differences and target broadly using *undifferentiated* (or *mass*) *marketing*. This involves mass producing, mass distributing, and mass promoting about the same product in about the same way to all consumers. Or the seller can adopt *differentiated marketing*—developing different market offers for several segments. *Concentrated marketing* (or *niche marketing*) involves focusing on one or a few market segments only. Finally, *micromarketing* is the practice of tailoring products and marketing programs to suit the tastes of specific individuals and locations. Micromarketing includes *local marketing* and *individual marketing*. Which targeting strategy is best depends on company resources, product variability, the PLC stage, market variability, and competitive marketing strategies.

OBJECTIVE 4 Discuss how companies differentiate and position their products for maximum competitive advantage. (pp. 229-237)

Once a company has decided which segments to enter, it must decide on its *differentiation and positioning* *strategy*. The differentiation and positioning task consists of three steps: identifying a set of possible differentiations that create competitive advantage, choosing advantages on which to build a position, and selecting an overall positioning strategy. The brand's full positioning is called its *value proposition*—the full mix of benefits on which the brand is positioned. In general, companies can choose from one of five winning value propositions on which to position their products: more for more, more for the same, the same for less, less for much less, or more for less. Company and brand positioning are summarized in positioning statements that state the target segment and need, the positioning concept, and specific points of difference. The company must then effectively communicate and deliver the chosen position to the market.

Key Terms

OBJECTIVE 1
Market segmentation (p 207)
Market targeting (or targeting) (p 207)
Differentiation (p 207)
Positioning (p 207)

OBJECTIVE 2
Geographic segmentation (p 208)
Demographic segmentation (p 209)
Age and life-cycle segmentation (p 210)
Gender segmentation (p 210)
Income segmentation (p 211)
Psychographic segmentation (p 212)
Behavioral segmentation (p 212)
Occasion segmentation (p 212)
Benefit segmentation (p 213)
Intermarket segmentation (p 217)

OBJECTIVE 3
Target market (p 220)
Undifferentiated (or mass) marketing (p 221)
Differentiated (or segmented) marketing (p 221)
Concentrated (or niche) marketing (p 222)
Micromarketing (p 223)
Local marketing (p 223)
Individual marketing (p 223)

OBJECTIVE 4
Product position (p 225)
Competitive advantage (p 230)
Value proposition (p 232)
Positioning statement (p 234)

Discussing the Concepts

1. Briefly describe the four major steps in designing a customer-driven marketing strategy.
2. Name and describe the four major sets of variables that might be used in segmenting consumer markets. Which segmenting variable(s) do you think the iPad is using?
3. Explain how marketers can segment international markets.
4. Compare and contrast undifferentiated, differentiated, concentrated, and micromarketing targeting strategies. Which strategy do you think works best for (a) Nokia, (b) a dental clinic, and (c) a family-owned high-end jewelry shop?
5. What is a product's "position" and how do marketers know what it is?
6. Name and define the five value propositions described in this chapter. Which value proposition describes your national airline? Explain your answer.

Applying the Concepts

1. Suppose you are introducing a new product—a hair gel that will temporarily turn straight hair curly till the next hair wash. How would you segment the market? What criteria would you be looking for to determine whether the segment you choose to target is worth entering?
2. This chapter discusses five requirements for effective segmentation. Suppose you are the product manager of Pringles potato chips. You are listening to a presentation on a new chip flavor (durian—a famous fruit found in Malaysia, Thailand, and Singapore) and it is your turn to ask questions. What five questions would you ask the person presenting this product idea? Each question should be directed at one of the five segmentation requirements.
3. Assume you are the marketing manager for Tiger beer. In the past, Tiger employed a mass-marketing strategy. Do you think Tiger would be better off with a more differentiated strategy? Why or why not? If you think so, identify possible segments that Tiger may enter. What types of beer should it market to each of these segments?
4. Suppose you work for your local TV station. The station has created a new reality television show. Develop a positioning statement for this television show. What competitive advantage does the show have over existing shows? How many and which differences would you promote?

Focus on Technology

Most companies want customers to be heavy users of their products or services. When it comes to the Internet and wireless broadband services, however, that's not necessarily the case. Internet providers, such as Comcast, may block or slow down Internet traffic for some heavy users, such as those who watch a lot of videos on YouTube. In 2009, the Federal Communications Commission (FCC) banned Comcast from blocking video file sharing; this ban was overturned in 2010 by a court ruling that the FCC does not have authority to enforce its "network neutrality" rules. Google, once a champion for unfettered Internet access for all, is changing its tune now that it can profit from favoring some customers over others in the burgeoning wireless broadband arena. Google and Verizon have teamed up to lobby for laws that allow them to favor some Web services over others.

1. Research the concept of network neutrality and write a report on the pros and cons of this principle from the viewpoint of businesses providing Internet and wireless broadband services.
(AACSB: Communication; Reflective Thinking)
2. What effect does very heavy usage by some customers have on other customers of broadband services? What are marketers of these services doing to counter the effect of heavy users?
(AACSB: Communication; Reflective Thinking)

Focus on Ethics

The obesity rate among children in developed countries is on the rise. Who's to blame? One study reported that 76 percent of American parents are of the opinion that food advertising is a major contributor to childhood obesity but also found that over 80 percent blamed parents, not marketers. Yet the U.S. government is homing in on marketers. Although most regulations regarding marketing to them are limited to children ages 12 and younger, the current guidelines include children up to 17 years old and propose restrictions on food marketing targeted at them. With $1.6 billion spent on food marketing and promotions targeted at children—$745 million of that on television—more than just marketers will be affected by marketing restrictions to this market segment.

1. Are marketers to blame for increasing obesity rates among children? Should the government ban the advertising of food products to children ages 17 and younger? Discuss the consequences of imposing such a ban. (AACSB: Communication; Ethical Reasoning)
2. What actions have food marketers taken to stem the threat of a ban on marketing to children? (AACSB: Communication; Reflective Thinking)

Marketing & the Economy

Vanilla Bikes

Portland-based Vanilla Bicycles sells hand-built bikes with price tags ranging from $4,000 to $12,000. But last year, after only nine years in business, owner Sacha White stopped taking orders—not because business had dried up but because he had a five-year waiting list. White and his crew of three make only 40 to 50 bikes each year. Frames are made from exotic metals, are welded with silver alloy, and weigh as little as 30 ounces. No two Vanilla bikes are the same. Each is custom-fitted to the client and features intricate metal carvings and an artisan paint job. Amazingly, almost all of these high-end bicycles are sold to middle-class customers. Still, orders did not ebb during the recent economic downturn. In fact, Vanilla could have ramped up production significantly during the heart of the recession and still have sold everything it made. However, White claims that ramping up would compromise the special nature of what customers consider works of art. Vanilla bikes are so special that when Portland bike couriers describe something as cool, they routinely say, "That's soooo Vanilla."

1. Based on the segmentation variables discussed in the chapter, construct a profile for Vanilla Bicycles' probable target market.
2. Given that most luxury products suffer in an economic downturn, why has Vanilla still succeeded?

Marketing by the Numbers

When you think of hybrid or electric automobiles, you probably don't think of the sports car. But the Fisker Karma is about to shatter that stereotype. It's been called "the hybrid with sex appeal" and is often compared to a Mercedes-Benz roadster. In the increasingly crowded field of new-generation electric vehicles, Fisker Automotive wants to carve out a niche as a high-performance eco-car with lots of style. The Fisker Karma goes from 0 to 100 kilometers per hour in over 6 seconds, can go up to 200 kilometers per hour, and can travel 80 kilometers on electric power and 480 kilometers on combined electric and fuel power. All this performance and style does not come cheap; prices range from $87,900 to $106,000 per car. Before bringing it to market, however, the company needs to identify its target market and estimate the market potential in this segment.

1. Identify an appropriate market segment for this product. Discuss the variables the company should consider when estimating the potential number of buyers for the high-performance Fisker Karma sports car. (AACSB: Communication; Reflective Thinking)
2. Using the chain ratio method described in Appendix 2, estimate the market potential for the Fisker Karma sports car. Search the Internet for reasonable numbers to represent the factors you identified in the previous question. Assume each buyer will purchase only one automobile and that the average price of automobiles in this market is $100,000. (AACSB: Communication; Use of IT; Analytical Reasoning)

Video Case

Meredith

The Meredith Corporation has developed an expertise in building customer relationships through segmentation, targeting, and positioning. Amazingly, however, it has done this by focusing on only half of the population—the female half. Meredith has developed the largest database of any U.S. media company and uses that database to meet the specific needs and desires of women.

Meredith is known for leading titles such as *Better Homes and Gardens*, *Family Circle*, and *Ladies' Home Journal*. But that list has grown to a portfolio of 14 magazines and more than 200 special interest publications. Through these magazines alone, Meredith regularly reaches about 30 million readers. By focusing on core categories of home, family, and personal development, Meredith has developed a product mix designed to meet various needs of women. This creates multiple touch points as individual women engage with more than one magazine, as well as with specialty books and Web sites.

After viewing the video featuring Meredith, answer the following questions about segmenting, targeting, and positioning:

1. Which main variables has Meredith focused on in segmenting its markets?
2. Which target marketing strategy best describes Meredith's efforts? Support your choice.
3. How does Meredith use its variety of products to build relationships with the right customers?

Company Case

Best Buy: Not the Best Buy in China

Best Buy, the largest U.S. electronics retailer, entered China in 2006 by buying a majority stake in Five Star, a Chinese electronics chain, with the opening of its 6,000-square-meter flagship store in one of Shanghai's expensive business areas. Its entry heralded a coup for both Best Buy as well as the local electronics retail scene. For Best Buy, its entry into China, the second biggest economy, allowed it to transfer its retail service expertise there. For Chinese electronic retail stores such as Gome and Suning, having Best Buy in their backyard meant they had to up their ante and demonstrate that they are worthy of foreign competition.

Best Buy's strategy was to transplant its business model, which worked successfully in the United States, to China. Unlike its Chinese competitors that targeted consumers with a limited budget, Best Buy targeted mid- and high-end consumers. It also introduced value-added services such as an extended warranty to entice such consumers. In contrast to most Chinese electronics retailers who allow sales people from different electronic brands to push their own products in the store, Best Buy employed its own in-store people to offer non-biased service to customers.

Best Buy believed that there would be some Chinese consumers who were willing to overlook price in favor of service. All things considered, Best Buy was going to distinguish itself on service. Said Bob Willett, then CEO of Best Buy International, "We've become a service company in North America, and that's what we're doing in China, too. Generally though, you don't have a lot of homegrown talent in China that knows how to do it. So we've had to create it ourselves."

And so began the service training process. When its flagship store was opened, the service standard was outstanding. Best Buy had trained its staff for more than a year. However, as it expanded, that initial talent became diluted. Resources for training could not match those expended on employees hired at the flagship store. Further, the available talent pool in China's big cities was not interested in making a career out of working at Best Buy.

Also, the assumption that there would be a sufficient number of Chinese who were willing to pay a higher price turned out to be flawed. The Chinese electronics marketplace is crowded, highly competitive; and extremely price sensitive. As it turned out, Chinese consumers are not bothered about good service; money is still the central issue for any purchase. The disposable income for the emerging middle class is limited. Therefore, they seek the most value out of what they spend. While an American customer may buy an extended warranty or pay a higher price for service inclusivity, a Chinese consumer usually cannot.

There is also an excess of cheap alternatives in China. Best Buy's flagship store was located within two blocks of Gome and Suning, both of whom undercut Best Buy's prices significantly. Hence, it did not make any rational sense for cost-conscious Chinese to purchase from Best Buy. Instead, Best Buy's interactive displays that allowed shoppers to try out their products inadvertently led to Shanghai shoppers going to their stores to experience the products and then promptly crossing the street to one of the other Chinese retailers and buying them there for less. Unlike in the United States where consumers are familiar with the concept of service and Best Buy has no major competitors and are sprawlingly located, Best Buy stores in China were located in a city where customers could walk to the competition.

As one analyst said, "Best Buy's premium was way too early an entry in a price-obsessed market with an endless supply of skilled low labor competing for work. And while the Best Buy brand may be a strong one in the United States, it is relatively unknown in China. So the brand cachet that enables some Western retailers to differentiate their offerings and achieve higher margins was not available to Best Buy."

After two years of operation in China, Best Buy appeared to feel the heat. In 2008, it announced that it would be scaling down spending by approximately 50 percent and reducing the number of new store openings. Although no details of the retrenchment were given, Best Buy seemed to be mired in contradictory signals. Just two months prior to the announcement, Best Buy opened five more stores—four in Shanghai and one in Beijing. By 2010, it was evident that Best Buy was not doing well.

In early 2011, Best Buy closed all its namesake brand stores in China to focus its operations on Five Star, hoping that with a more familiar Chinese brand, it could build sales of washing machines and mobile phones. However, by end 2014, Best Buy exited the Chinese consumer-electronics business completely by selling off its stake in Five Star. The competitive local Chinese market and slowing China economy took a toll on Best Buy.

Other foreign consumer electronics retailers are also finding China tough going. In 2013, Europe's Metro AG announced that it would pull out of the Chinese consumer-electronics business. Another U.S.-based company, Home Depot, closed its stores in 2012, saying that its do-it-yourself store did not work in a "do-it-for-me" Chinese culture.

Given the Chinese landscape, Best Buy management pondered how it could have gone so wrong. If they were to start all over again, how should they have positioned Best Buy in China?

Questions For Discussion

1. What were Best Buy's points-of-parity and points-of-difference in China?
2. Was its differentiation meaningful or relevant to Chinese consumers? Why or why not?
3. How would you have positioned Best Buy in China?

Sources

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Objective Outline

OBJECTIVE 1
Define product and the major classifications of products and services.
What is a Product? (245–250)

OBJECTIVE 2
Describe the decisions companies make regarding their individual products, product lines, and product mixes.
Product Decisions (250–258)

OBJECTIVE 4
Discuss branding strategy—the decisions companies make in building and managing their brands.
Branding Strategy: Building Strong Brands (258–271)

OBJECTIVE 4
Identify the four characteristics that affect the marketing of services and the additional marketing considerations that services require.
Services Marketing (271–274)

Chapter

8

Product, Services, and Branding Strategy

Previewing the Concepts

After examining customer-driven marketing strategy, we now take a deeper look at the marketing mix—the tactical tools that marketers use to implement their strategies. In this and the next chapter, we'll study how companies develop and manage products and brands. Then, in the chapters that follow, we'll look at pricing, distribution, and marketing communication tools.

The product is usually the first and most basic marketing consideration. To start things off, what is a product? Consider GoPro, the small but fast-growing company that makes tiny, wearable HD video cameras.

GoPro: Be A Hero!

A growing army of GoPro customers—many of them extreme sports enthusiasts—are now strapping amazing little GoPro cameras to their bodies, or mounting them on anything from the front bumpers of race cars to the heels of skydiving boots, in order to capture the extreme moments of their lives and lifestyles. Then, they can't wait to share those emotion-packed GoPro moments with friends. In fact, the chances are good that you've seen many GoPro-created videos on YouTube or Facebook, or even on TV.

Maybe it's the one shot by the skier who sets off an avalanche in the Swiss Alps and escapes by parachuting off a cliff—that amateur video received 2.6 million YouTube views in nine months. Or maybe you saw the one where a seagull picks up a tourist's camera and takes off with it, capturing a bird's-eye view of a castle in Cannes, France (3 million views in seven months). A promotional video featuring five minutes of video clips captured by fans with the latest GoPro model snared more than 16 million YouTube views in only three months.

GoPro's avid customers have become evangelists for the brand. On average, they upload three new videos to YouTube every minute. In turn, the videos inspire new GoPro customers and even more video sharing. In 2013, the young company sold 3.8 million cameras, generating a total revenue of $986 million, nearly double the previous year's sales. By 2015, its revenue climbed to $1.62 billion, with China as one of its top 10 markets. According to Google, more than 4.6 years of content was uploaded to YouTube in 2015 with GoPro in the title—up 22 percent from 2014.

What makes GoPro so successful? Part of the formula is the cameras themselves: GoPro cameras are marvels of modern technology, especially given their affordable starting price of only $200 to $400. At only about two inches wide and 2.21 ounces, a GoPro HD video camera looks like little more than a small gray box. But the lightweight, wearable or mountable GoPro is extremely versatile, and it packs amazing power for capturing stunning HD-quality video. A removable housing makes GoPro cameras waterproof to depths of 180 feet. And GoPro cameras are drop-proof from 3,000 feet (so claims one skydiver).

> The GoPro story shows that factors at many levels affect consumer buying behavior. According to Nicholas D. Woodman, founder and CEO of GoPro says "We know that our cameras are arguably the most socially networked consumer devices of our time, so it's clear we're not just building hardware."

But GoPro knows that consumer behavior is driven by much more than just high-quality products with innovative features. The company's slogan sums up pretty well the consumer's deeper motivations: GoPro—Be a HERO.

So far, GoPro has focused primarily on the capture step of the overall customer storytelling experience. GoPro bills itself as the "World's Most Versatile Camera. Wear It. Mount It. Love It." But founder Nicholas D. Woodman knows that to keep growing, GoPro must broaden its offer to address the full range of customer needs and motivations—not just capture, but also creation, broadcast, and recognition.

GoPro's rich understanding of what makes its customers tick is serving the young company well. Its enthusiastic customers are among the most loyal and engaged of any brand. For example, GoPro's Facebook fan base is more than 6.6 million and growing fast. To put that in perspective, much larger Canon USA has only 1.2 million Facebook followers; Panasonic has 253,000. Beyond uploading nearly half a million videos a year, GoPro fans interact heavily across a broad range of social media. "I think we have the most socially engaged online audience of any consumer brand in the world," claims Woodman.

All that customer engagement and enthusiasm has made GoPro the world's fastest-growing camera company. Today, GoPro cameras are available in more than 35,000 stores in more than 100 countries, from small sports-enthusiast shops to REI, Best Buy, and Amazon.com. GoPro's remarkable little cameras have also spread beyond amateurs. They have become standard equipment for many professional filmmakers—whether it's the Discovery Channel or a news show team filming rescues, wildlife, and storms, TV shows such as Deadliest Catch taking pictures of underwater crab pots or the sides of ships in heavy seas. When stuntman Felix Baumgartner made his breathtaking 128,000-foot jump from the edge of space, he was wearing five GoPros. The use of GoPro equipment by professionals lends credibility that fuels even greater consumer demand.

GoPro's story shows that success begins with understanding customer needs and motivations. The company knows that it doesn't just make cameras. It enables customers to share important moments and emotions. The company sums it up this way: "Dream it. Do it. Capture it with your GoPro. Capture and share your world."[1]

As the GoPro example shows, marketers must build products and brands that connect with customers. This chapter begins with a simple question: *What is a product*? We then look at ways to classify products in consumer and business markets. Then we discuss the important decisions that marketers make regarding individual products, product lines, and product mixes. Next, we look into the critical issue of how marketers build and manage brands. Finally, we examine the characteristics and marketing requirements of a special form of product—services.

What is a Product?

A **product** is anything that can be offered to a market for attention, acquisition, use, or consumption that might satisfy a want or need. Products include more than just tangible goods. They include physical objects, services, events, persons, places, organizations, ideas, or mixes of these entities. We use the term *product* broadly to include any or all of these entities. Thus, an Apple iPad, a Toyota Camry, and a Green Tea Frappuccino at Starbucks are products. But so are the Baidu search engine, HSBC online investment services, and advice from your doctor.

Because of their importance in the world economy, we give special attention to services. **Services** are a form of product that consist of activities, benefits, or satisfactions offered for sale that are essentially intangible and do not result in the ownership of anything. Examples are banking, hotel, airline, retail, tax preparation, and home-repair services.

Product
Anything that can be offered to a market for attention, acquisition, use, or consumption that might satisfy a want or need.

Service
Any activity or benefit that one party can offer to another that is essentially intangible and does not result in the ownership of anything.

Products, Services, and Experiences

A product is a key element in the overall *market offering*. A company's market offering often includes both tangible goods and services. Each component can be a minor or major part of the total offer. At one extreme, the offer may consist of a *pure tangible good*, such as soap, toothpaste, or salt—no services accompany the product. At the other extreme are *pure services*, for which the offer consists primarily of a service. Examples include a doctor's examination or online services. Between these two extremes, however, many goods-and-services combinations are possible.

Many companies differentiate their offers by creating and managing customer *experiences* with their products or company. Companies that market experiences realize that customers are really buying much more than simply products and services. They are buying what these offers will *do* for them. "A brand, product, or service is more than just a physical thing. Humans that connect with the brand add meaning and value to it," says one marketing executive. "Successfully managing the customer experience is the ultimate goal," adds another.[2]

› When you buy an iPad, you are buying more than the physical product. You are also buying the experience of using it, as well as the emotion associated with it.

› Keeping in touch with changing trends, McDonald's in Malaysia differentiates itself from other fast-food restaurants by providing an atmosphere that encourages people, especially youngsters, to spend time there while enjoying the restaurant's food.

Levels of Products and Services

Product planners need to think about products and services on three levels (see **Figure 8.1**). Each level adds more customer value. The three levels are:

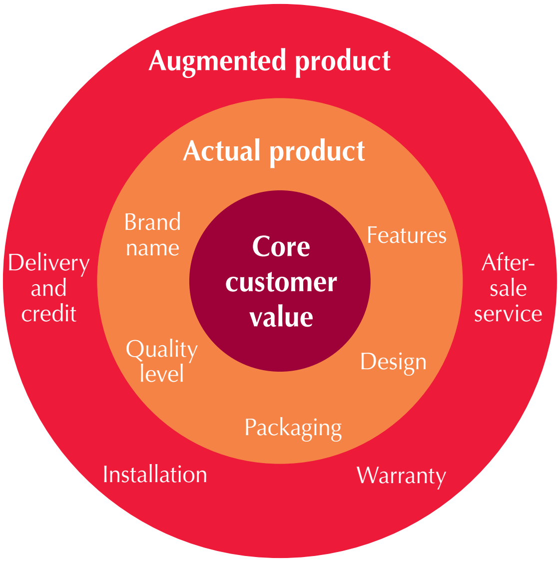


FIGURE 8.1
Three levels of products

Core, actual, and augmented product – People who buy an iPhone are buying more than a wireless mobile phone, email and Web-browsing device, or personal organizer. They are buying freedom and on-the-go connectivity to people and resources.

- *Core customer value*. This is the most basic level. It addresses the question *What is the buyer really buying?* When designing products, marketers must first define the core, problem-solving benefits or services that consumers seek. A woman buying lipstick buys more than lip color. Charles Revson of Revlon saw this early: "In the factory, we make cosmetics; in the store, we sell hope." And people who buy an iPhone are buying more than a wireless mobile phone, email and Web-browsing device, or personal organizer. They are buying freedom and on-the-go connectivity to people and resources.
- *Actual product*. At the second level, product planners develop product and service features, design, a quality level, a brand name, and packaging. For example, the iPhone is an actual product. Its name, parts, styling, features, packaging, and other attributes have all been carefully combined to deliver the core benefit of staying connected.
- *Augmented product*. Finally, product planners offer additional consumer services and benefits around the core benefit and actual product. The iPhone offers more than just a communications device. It provides consumers with a complete solution to mobile connectivity problems. Thus, when consumers buy an iPhone, Apple and its dealers might also provide buyers with a warranty on parts and workmanship, instructions on how to use the device, quick repair services when needed, and a toll-free telephone number and Web site to use if they have problems or questions.

Product and Service Classifications

Products and services fall into two broad classes based on the types of consumers that use them—*consumer products* and *industrial products*. Broadly defined, products also include other marketable entities such as experiences, organizations, persons, places, and ideas.

Consumer Products

Consumer products are products and services bought by final consumers for personal consumption. Marketers usually classify these products and services based on how consumers go about buying them. Consumer products include *convenience products*, *shopping products*, *specialty products*, and *unsought products*. These products differ in the ways consumers buy them and therefore in how they are marketed (see **Table 8.1**).

Convenience products are consumer products and services that the customer usually buys frequently, immediately, and with minimum comparison and buying effort. Examples include soap, candy, newspapers, and fast food. Convenience products are usually low-priced, and marketers place them in many locations to make them readily available when customers need them.

Shopping products are less frequently purchased consumer products and services that customers compare carefully on suitability, quality, price, and style. When buying shopping products and services, consumers spend much time and effort gathering information and making comparisons. Examples include furniture, clothing, used cars, major appliances, and hotel and airline services. Shopping-products marketers usually distribute their products through fewer outlets but provide deeper sales support to help customers in their comparison efforts.

Specialty products are consumer products and services with unique characteristics or brand identification for which a significant group of buyers is willing to make a special purchase effort. Examples include specific brands and types of cars, high-priced photographic equipment, designer clothes, and the services of medical or legal specialists. A Lamborghini automobile, for example, is a specialty product because buyers are usually willing to travel great distances to buy one. Buyers normally do not compare specialty products. They invest only in the time needed to reach dealers carrying the wanted products.

Unsought products are consumer products that the consumer either does not know about or knows about but does not normally think of buying. Most major

Consumer product
Product bought by final consumer for personal consumption.

Convenience product
Consumer product that the customer usually buys frequently, immediately, and with minimum comparison and buying effort.

Shopping product
Consumer product that the customer, in the process of selection and purchase, characteristically compares on bases such as suitability, quality, price, and style.

Specialty product
Consumer product with unique characteristics or brand identification for which a significant group of buyers is willing to make a special purchase effort.

Unsought product
Consumer product that the consumer either does not know about or knows about but does not normally think of buying.

TABLE 8.1 Marketing Considerations for Consumer Products

Marketing Considerations	Type of Consumer Product			
	Convenience	**Shopping**	**Specialty**	**Unsought**
Customer buying behavior	Frequent purchase, little planning, little comparison or shopping effort, low customer involvement	Less frequent purchase, much planning and shopping effort, comparison of brands on price, quality, style	Strong brand preference and loyalty, special purchase effort, little comparison of brands, low price-sensitivity	Little product awareness, knowledge (or, if aware, little or even negative interest)
Price	Low price	Higher price	High price	Varies
Distribution	Widespread distribution, convenient locations	Selective distribution in fewer outlets	Exclusive distribution in only one or a few outlets per market area	Varies
Promotion	Mass promotion by the producer	Advertising and personal selling by both producer and resellers	More carefully targeted promotion by both producer and resellers	Aggressive advertising and personal selling by producer and resellers
Examples	Toothpaste, magazines, laundry detergent	Major appliances, televisions, furniture, clothing	Luxury goods, such as Rolex watches or fine crystal	Life insurance, blood donations

new innovations are unsought until the consumer becomes aware of them through advertising. Classic examples of known but unsought products and services are life insurance, preplanned funeral services, and blood donations. By their very nature, unsought products require a lot of advertising, personal selling, and other marketing efforts.

Industrial product
Product bought by individuals and organizations for further processing or for use in conducting a business.

Industrial Products

Industrial products are those purchased for further processing or for use in conducting a business. Thus, the distinction between a consumer product and an industrial product is based on the *purpose* for which the product is bought. If a consumer buys a camera for personal use, the camera is a consumer product. If the same consumer buys the same camera for use in a photography business, the camera is an industrial product.

The three groups of industrial products and services include materials and parts, capital items, and supplies and services (see **Figure 8.2**). *Materials and parts* include raw materials and manufactured materials and parts. Raw materials consist of farm products (wheat, livestock, fruits) and natural products (fish, lumber, crude petroleum). Manufactured materials and parts consist of component materials (yarn, cement, wires) and component parts (small motors, tires, castings). Most manufactured materials and parts are sold directly to industrial users. Price and service are the major marketing factors; branding and advertising tend to be less important.

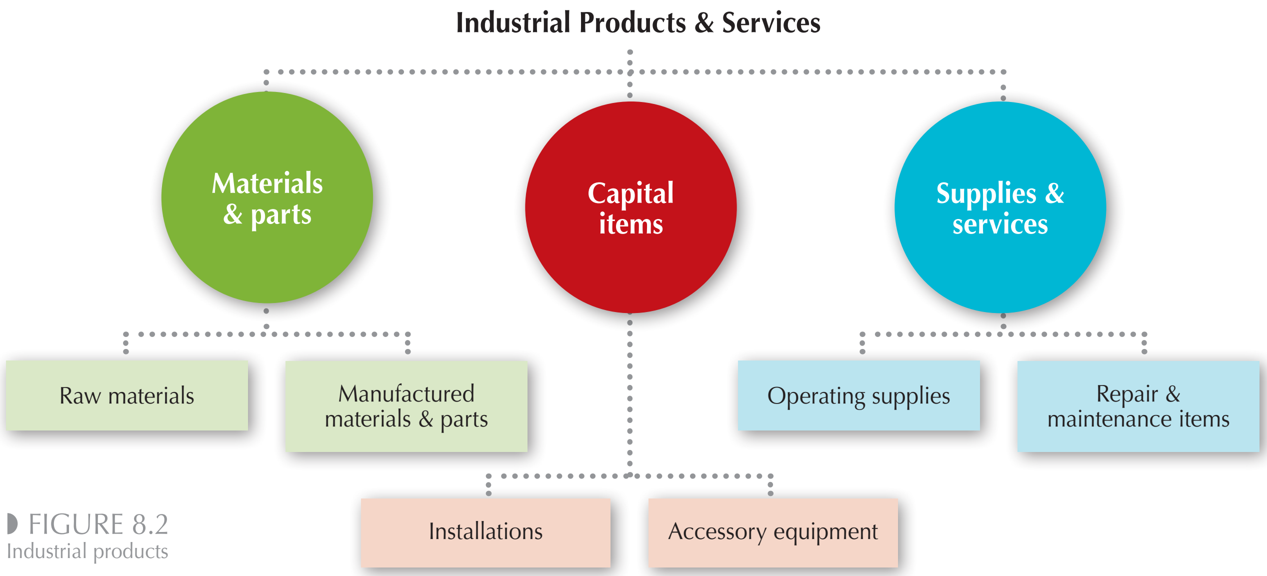


FIGURE 8.2
Industrial products

Capital items are industrial products that aid in the buyer's production or operations, including installations and accessory equipment. Installations consist of major purchases such as buildings (factories, offices) and fixed equipment (generators, elevators). Accessory equipment includes portable factory equipment and tools (hand tools, lift trucks) and office equipment (computers, desks). They have a shorter life than installations and simply aid in the production process.

The final group of industrial products is *supplies and services*. Supplies include operating supplies (lubricants, paper, pencils) and repair and maintenance items (paint, nails, brooms). Supplies are the convenience products of the industrial field because they are usually purchased with minimum effort or comparison. Business services include maintenance and repair services (window cleaning, computer repair) and business advisory services (legal, management consulting, advertising). Such services are usually supplied under contract.

❯ Companies like Nike have used sports personalities like Kobe Bryant to endorse their products, drawing attention to their brands.

Organizations, Persons, Places, and Ideas

In addition to tangible products and services, marketers have broadened the concept of a product to include other market offerings—organizations, persons, places, and ideas.

❯ Haier advertises that it wants to go "Haier and Higher."

Organizations often carry out activities to "sell" the organization itself. *Organization marketing* consists of activities undertaken to create, maintain, or change the attitudes and behavior of target consumers toward an organization. Business firms sponsor public relations or *corporate image advertising* campaigns to polish their images and market themselves to various publics. For example, Panasonic puts out ads with the tagline "Panasonic Ideas for Life." Haier wants to go "Haier and Higher." Hyundai is "Always There for You." Similarly, not-for-profit organizations, such as colleges, charities, and museums market their organizations to raise funds and attract members or patrons.

People can also be thought of as products. *Person marketing* consists of activities undertaken to create, maintain, or change attitudes or behavior toward particular people. People ranging from presidents, entertainers, and sports figures to professionals such as doctors, lawyers, chefs, and architects use person marketing to build their reputations. And businesses, charities, and other organizations use well-known personalities to help sell their products or causes. For example, Nike, Tsingtao, Tag Heuer, and American Express have used celebrities to endorse their products. Former NBA star Yao Ming has been associated with companies like China Unicom, Sorrent, Apple, Visa, and Nike; Kobe Bryant for endorsing Tsingtao Beer; and Michael Phelps for Speedo.

Place marketing involves activities undertaken to create, maintain, or change attitudes or behaviors toward particular places. Cities, states, regions, and nations compete to attract tourists, new residents, conventions, and company offices and factories. Take the case of Hong Kong and Shanghai in their rivalry as China's premier business center. They are learning that cities succeed by establishing themselves as fun places to live in; their ability to attract creative classes such as writers, musicians, and architects; and in providing an environment for the elite to change society. Using a city such as London as a reference point, Hong Kong and Shanghai observed that London's long-term planning resulted in a surge in property prices, multinational investment, tourist income, and a flowering of the arts. As the Hong Kong–Shanghai rivalry went beyond business to the arts, sports, lifestyle, entertainment, tourism, and convention business, each city took steps to change its image and placed greater emphasis on creativity.[3]

› **Place marketing** – Hong Kong and Shanghai are promoting themselves as fun cities to attract the creative elite.

Social marketing
The use of commercial marketing concepts and tools in programs designed to influence individuals' behavior to improve their well-being and that of society.

Ideas can also be marketed. Here, we focus on the marketing of *social ideas*. This area has been called **social marketing**, defined by the Social Marketing Institute as the use of commercial marketing concepts and tools in programs designed to influence individuals' behavior to improve their well-being and that of society.[4]

Social marketing programs include public health campaigns to reduce smoking, alcoholism, drug abuse, and overeating. Other social marketing efforts include environmental campaigns to promote wilderness protection, clean air, and conservation. Asian governments are known for their social marketing campaigns. In Singapore, for example, there are social marketing campaigns such as "Keep Singapore Clean, Green, and Mosquito Free," "Have Three or More (Children) If You Can Afford It," "Speak Mandarin," "Towards a Nation of Non-Smokers," and "Singapore's OK."

Product Decisions

Marketers make product decisions at three levels: individual product decisions, product line decisions, and product mix decisions. We discuss each in turn.

Individual Product Decisions

Figure 8.3 shows the important decisions in the development and marketing of individual products. We will focus on decisions about *product attributes*, *branding*, *packaging*, *labeling*, and *product support services*.

Product Attributes

Developing a product involves defining the benefits that it will offer. These benefits are communicated and delivered by product attributes such as *quality*, *features*, and *style and design*.

FIGURE 8.3
Individual product decisions

Product Quality

Product quality is one of the marketer's major positioning tools. Quality has a direct impact on product performance; thus, it is closely linked to customer value and satisfaction. It is concerned with the product characteristics that can satisfy stated or implied customer needs. Siemens defines quality this way: "Quality is when our customers come back and our products don't."[5]

Product quality
The characteristics of a product or service that bear on its ability to satisfy stated or implied customer needs.

Total quality management (TQM) is an approach in which all the company's people are involved in constantly improving the quality of products, services, and business processes. For most top companies, customer-driven quality has become a way of doing business. Today, companies are taking a "return on quality" approach, viewing quality as an investment and holding quality efforts accountable for bottom-line results.[6]

Product quality has two dimensions—level and consistency. In developing a product, the marketer must first choose a *quality level* that will support the product's positioning. Here, product quality means *performance quality*—the ability of a product to perform its functions. For example, a Rolls-Royce, compared to a Nissan, offers a smoother ride and provides more "creature comforts." Companies rarely try to offer the highest possible performance quality level—few customers want or can afford the high levels of quality offered in products such as a Rolls-Royce or a Patek Philippe watch. Instead, companies choose a quality level that matches target market needs and the quality levels of competing products.

High quality can also mean high levels of *quality consistency*. Here, product quality means *conformance quality*—freedom from defects and *consistency* in delivering a targeted level of performance. All companies should strive for high levels of conformance quality. In this sense, a Nissan can have just as much quality as a Rolls-Royce. It may not perform as well as a Rolls-Royce, but it can consistently deliver the quality that customers pay for and expect.

Product Features

A product can be offered with varying features. A stripped-down model is the starting point. The company can create higher-level models by adding more features. Features are a competitive tool for differentiating a company's product from competitors' products. Being the first producer to introduce a valued new feature is one of the most effective ways to compete. In Japan, Coca-Cola introduced the Green Tea–flavored Coke as well as an unsweetened five-grain tea called *Sokenbicha Gokoku* to meet the demand for more healthy drinks. Nissan introduced its electric car, Leaf, by launching a Zero Emission movement through Twitter. The campaign encouraged global audiences to tweet about zero emission.

How can a company identify new features and decide which ones to add to its product? The company should periodically survey buyers who have used the product and ask these questions: How do you like the product? Which specific features of the product do you like most? Which features could we add to improve the product? The company can then assess each feature's *value* to customers versus its *cost* to the company. Features that customers value highly in relation to costs should be added.

This Green Tea–flavored Coke contains antioxidants called catechins, and targets health-conscious women in their 20s and 30s.

Product Style and Design

Another way to add customer value is through a distinctive *product style and design*. Design is a larger concept than style. *Style* simply describes the appearance of a product. A sensational style may grab attention and produce pleasing aesthetics, but it does not necessarily make the product *perform* better. Unlike style, *design* is more than skin-deep—it goes to the very heart of a product. Good design contributes to a product's usefulness as well as to its looks, while poor design can result in lost sales and embarrassment.

❯ There is a face-off between these two Korean *chaebols*, Samsung and LG. Design is one of the areas that they are competing on.

Korean designs – Design is the battleground that Samsung and LG are facing off on. Both are using design to keep them within the top three of the global mobile phone market. Formerly, LG generally concentrated on originality, sometimes being quite eccentric, while Samsung focused on understated minimalism. However, of late, Samsung has been placing more emphasis on style and fashion. Its Galaxy S and Tab have been lauded and met with success. This orientation towards design has extended to consumer durables. LG revamped its frost-free refrigerators to include stylish diamond cuts, sleekly-designed handles, a dual-tone finish, and linear colors.[7]

Brand
A name, term, sign, symbol, or design, or a combination of these that identifies the products or services of one seller or group of sellers and differentiates them from those of competitors.

Branding

A **brand** is a name, term, sign, symbol, or design, or a combination of these, that identifies the maker or seller of a product or service. Consumers view a brand as an important part of a product, and branding can add value to a product. Customers attach meanings to brands and develop brand relationships. Brands have meaning well beyond a product's physical attributes. For example, consider Coca-Cola:[8]

In an interesting taste test of Coca-Cola versus Pepsi, 67 subjects were connected to brain-wave monitoring machines while they consumed both products. When the soft drinks were unmarked, consumer preferences were split down the middle. But when the brands were identified, subjects choose Coke over Pepsi by a margin of 75 percent to 25 percent. When drinking the identified Coke brand, the brain areas that lit up most were those associated with cognitive control and memory—a place where cultural concepts are stored. That didn't happen as much when drinking Pepsi. Why? According to one brand strategist, it's because of Coca-Cola's long-established brand imagery—the 100-year-old contour bottle and cursive font and its association with iconic images such as Santa Claus and polar bears. Pepsi's imagery isn't quite as deeply rooted. Although people might associate Pepsi with a hot celebrity or the "Pepsi generation" appeal, they probably do not link it to the strong and emotional American icons associated with Coke. The conclusion? Consumer preference isn't based on taste alone. Coke's iconic brand appears to make a difference.

Branding has become so strong that today nothing goes unbranded. Salt is packaged in branded containers, and automobile parts—spark plugs, tires—bear brand names that differ from those of the automakers. Even fruits, vegetables, dairy products, and poultry are branded—Sunkist oranges, Dole pineapples, Del Monte bananas.

BRANDING

- Helps consumer identify products
- Says something about product quality
- Provides legal protection
- Helps segment the market
- Commands a premium for better quality brands

FIGURE 8.4
Advantages of branding

Branding helps buyers in many ways (see **Figure 8.4**). Brand names help consumers identify products that might benefit them. Brands also say something about product quality and consistency—buyers who always buy the same brand know that they will get the same features, benefits, and quality each time they buy. Branding also gives the seller several advantages. The brand name becomes the basis on which a whole story can be built around a product's special qualities. The seller's brand name and trademark provide legal protection for unique product features that otherwise might be copied by competitors. Branding helps the seller to segment markets. For example, Toyota Motor Corporation can offer the major Lexus, Toyota, and Scion brands, each with numerous sub-brands, such as Camry, Corolla, Prius, Yaris, Prado, and others, and not just one general product for all consumers. And better quality brands, because of branding, can also command a premium. Farmers in China have branded their commodities so that consumers can identify them and pay a premium. For example, the price of Dangyuan brand pears from Anhui province is 30 percent higher than brandless competitors.

Ironically, Muji, a Japanese brand that translates roughly as "no label, quality goods" has a cult status in the designer world despite being logo-free, a characteristic that is often associated with lower-end products. Yet Muji has made a business case for creating a "secret" brand with products that are conversational pieces.[9]

Countries are also branded. The "Made-in" label suggests the branding associated with the country of manufacture.

The Japanese minimalist clothing chain, Muji, has attained a cult status as a "brandless" brand.

Made in China – China has been tarnished by the safety scandals surrounding its toys and food. In what is believed to be its first attempt at global branding to repair its battered image, China launched a "Made in China, Made with the World" campaign. It stresses that some Chinese products are made with the help of foreign companies and technology. For instance, one commercial featured a jogger tying his shoe laces with the label "Made in China with American sports technology," while another had a model wearing clothes with the label "Made in China with French designers."[10]

To improve its image, China launched a "Made in China, Made with the World" campaign to change perceptions that its products are unsafe.

Packaging

Packaging involves designing and producing the container or wrapper for a product. Traditionally, the primary function of the package was to hold and protect the product. However, with increased competition and clutter on retail store shelves, packages must now perform many sales tasks—from attracting attention, to describing the product, to making the sale.

Companies are realizing the power of good packaging to create instant consumer recognition of the company or brand. At one time, Coke had 450 brands, more than 300 different models of vending machines, innumerable bottling and retail partners, and no consistent global design standards. Discussions about how to make the can feel colder longer, or how to make the cup easier to hold came about to create smart design. One such result is the aluminum contour bottle. From a branding perspective, it's a more modern update of the glass bottle with a less expensive production cost. From a consumer's perspective, the aluminum feels colder than glass, and has a resealable cap. The bottle is made from recycled aluminum that is itself recyclable.[11]

Packaging
The activities of designing and producing the container or wrapper for a product.

Innovative packaging can give a company an advantage over competitors and boost sales. For example, Heinz revolutionized the ketchup industry by inverting the good old ketchup bottle, letting customers quickly squeeze out even the last bit of ketchup. It also adopted a "fridge-door-fit" shape that not only slots into shelves more easily but also has a cap that is simpler for children to open. The new package doubles as a promotional tool. In the year following the new bottle's debut, Heinz ketchup sales grew at three times the industry rate.

Innovative packaging – This can give a company an advantage over competitors and boost sales. When Heinz inverted the good old ketchup bottle, sales grew at three times the industry rate the following year.

Packaging plays an important role in East Asia. Superior packaging signals quality and makes imitation more difficult. Moreover, the East Asian preference for complexity of expression and decoration is evident in the display of multiple forms, shapes, and colors in packaging. For example, the color combination of red, black, and gold is particularly appealing in Korea. Further, East Asians value naturalism. Objects such as mountains and phoenixes are frequently found in Chinese advertising and packaging. In Japan, gardens, trees, and flowers are prime objects, while animals are emphasized in Southeast Asia.

Labeling

Labels range from simple tags attached to products to complex graphics that are part of the package. They perform several functions. The label *identifies* the product or brand, such as the name Sunkist stamped on oranges. It might also *describe* several things about the product—who made it, where it was made, when it was made, its contents, how it is to be used, and how to use it safely. Finally, the label helps to *promote* the product and support its positioning. In Japan, Coca-Cola introduced I LOHAS mineral water bottles. LOHAS stands for Lifestyle Of Health And Sustainability. In line with its labeling, the bottles can be easily crushed into a 12-gram piece of plastic which is 40 percent less than similar PET bottles, have lighter delivery loads, reduce wasted air for recycling shipments, and lower waste disposal emisssions.[12]

The name of I LOHAS includes two different terms of "I-LO-HA" (ABC in Japanese) and "LOHAS" to represent the concept of starting lifestyles of health and sustainability.

Product Support Services

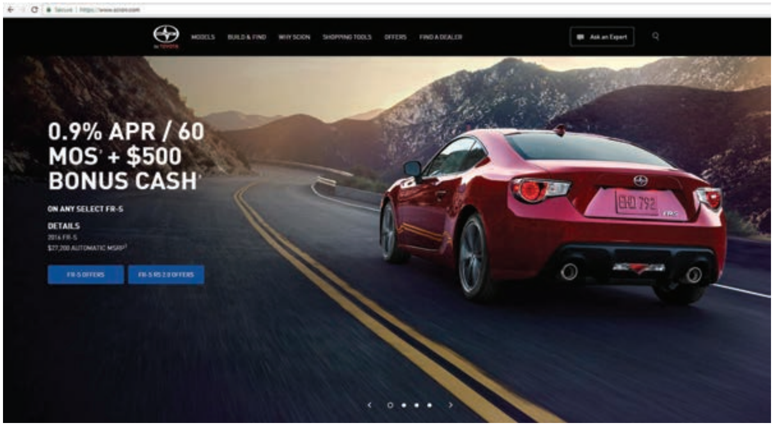
Customer service is another element of product strategy. A company's offer usually includes some support services, which can be a minor or a major part of the total offering. For example, Samsung Asia operates its Prestige Service in the Philippines to accompany high-end products (plasma, projection, LCD TVs, and the Side-by-Side Refrigerator). It promises quick repair through a one-day response service. Further, customers can loan a temporary set if the product is not repaired by the second day. Samsung also offers a free home product demonstration service and a 14-day exchange service.

The first step in providing such support services is to survey customers periodically to assess the value of current services and to obtain ideas for new ones. Once the company has assessed the value of various support services to customers, it must assess the costs of providing these services. It can then develop a package of services that will both delight customers and yield profits for the company.

Many companies use a sophisticated mix of phone, email, fax, Internet, and interactive voice and data technologies to provide support services. Consider the following example:

> Some online merchants watch where you surf, then open a chat window on your screen to ask—just as they would in the store—if you have questions about the goods they see you eyeing. For example, at the Scion Web site, clicking on the Scion Chat button puts you in real-time touch with someone who can answer your questions or help you to design your personalized Scion. Hewlett-Packard sends pop-up chat boxes to visitors who are shopping on HP.com's pages for digital photography products. If a shopper loiters for a few minutes over some gear, up pops a photo of an attractive woman with the words, "Hello, need information? An HP live chat representative is standing by to assist you." Click on "Go" and type a question, and a "live" sales agent responds immediately. Since launching its pop-up chat feature, HP has seen a 65 percent surge in online questions.[13]

› Product support services – Many companies are now using a sophisticated mix of interactive technologies to provide support services that were not possible before. For example, at the Scion Web site, clicking the Scion Chat button puts you in real-time touch with someone who can answer your questions or help you design your own personalized Scion.



Product Line Decisions

A product strategy also calls for building a product line. A **product line** is a group of products that are closely related because they function in a similar manner, are sold to the same customer groups, are marketed through the same types of outlets, or fall within given price ranges. For example, Lenovo produces several lines of laptops, netbooks, desktops, and workstations.

The major product line decision involves *product line length*—the number of items in a product line. The line is too short if a manager can increase profits by

Product line
A group of products that are closely related because they function in a similar manner, are sold to the same customer groups, are marketed through the same types of outlets, or fall within given price ranges.

adding items; the line is too long if a manager can increase profits by dropping items. Managers need to conduct a periodic *product line analysis* to assess each product item's sales and profits and to understand how each item contributes to the line's performance.

Product line length is influenced by company objectives and resources. For example, one objective might be to allow for upselling. For example, BMW wants to move customers up from its 3-series models to 5- and 7-series models. Another objective might be to allow cross-selling: Canon sells scanners as well as printers. Still another objective might be to protect against economic swings: Gap runs several clothing-store chains (Gap, Old Navy, Banana Republic) covering different price points. Yet another is to fill in the gaps to pre-empt competition: Brands Essence of Chicken has different tonics for different needs.

❯ BRAND'S® is a leading health enrichment player in Asia achieving sustainable growth. Its consumer-centric innovation is key to its success, enabling a diverse portfolio that caters to different and evolving consumers' needs. Its hero product range BRAND'S® Essence of Chicken has several complementary offerings with different benefits. For instance, while BRAND'S® Essence of Chicken Original is for a healthy body and sharp mind its Essence of Chicken with Ginseng increases stamina and sport recovery.

A company can expand its product line in two ways: by *line stretching* or by *line filling*. *Product line stretching* occurs when a company lengthens its product line beyond its current range. The company can stretch its line downward, upward, or both ways (see **Figure 8.5**).

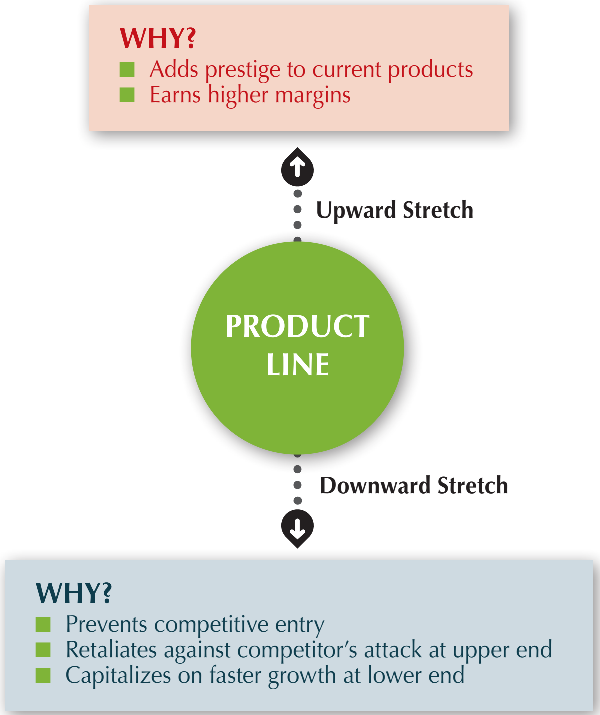


FIGURE 8.5
Reasons for product line decisions

Companies located at the upper end of the market can stretch their lines *downward*. A company may stretch downward to plug a market hole that otherwise would attract a new competitor or to respond to a competitor's attack on the upper end. Or it may add low-end products because it finds faster growth taking place in the low-end segments. DaimlerChrysler stretched its Mercedes line downward for all these reasons. When faced with a slow-growth luxury car market and attacks by Japanese automakers on its high-end positioning, it successfully introduced its Mercedes C- and A-Class cars. These models sell in a lower price range without harming the firm's ability to sell other Mercedes at much higher prices. A recent example is Starbucks who stretched downwards by unveiling a cheaper instant coffee, Via.

Companies at the lower end of a market can stretch their product lines *upward*. Sometimes, companies stretch upward to add prestige to their current products. Or they may be attracted by a faster growth rate or higher margins at the higher end. For example, the leading Japanese auto companies each introduced an upmarket automobile: Toyota launched Lexus; Nissan, the Infiniti; and Honda, the Acura. They used entirely new names rather than their own.

An alternative to product line stretching is *product line filling*—adding more items within the present range of the line. There are several reasons for product line filling: reaching for extra profits, satisfying dealers, using excess capacity, being the leading full-line company, and plugging holes to keep out competitors. However, line filling gets overdone if it results in cannibalization and customer confusion. The company should ensure that new items are noticeably different from existing ones. Consider Eversoft:

❯ Eversoft Skinz fills the needs of a young segment who wants anti-ageing products. To differentiate this from its existing products, Eversoft used Miho Fujima, a youthful-looking celebrity, to endorse the product.

Eversoft is a leading brand of total skin and body care solutions for the everyday consumer. It started offering facial cleansers in the 1980s but has since filled its line. The company noticed that anti-ageing products were increasingly being used, even by young consumers aged 25 to 35, though these products were not necessarily designed for their skin type. Hence, Eversoft launched Skinz, designed specifically for this young segment. Its proposition is that Skinz prevents early signs of ageing through the therapeutic properties of hot spring water from Yubara, Japan. To minimize confusion with its existing products, it featured Miho Fujima, a Japanese celebrity who looks young, thus possessing the credibility to explain the brand and its benefit.

Product Mix Decisions

An organization with several product lines has a product mix. A **product mix** (or **product portfolio**) consists of all the product lines and items that a particular seller offers for sale. Colgate's product mix consists of four major product lines: oral care, personal care, home care, and pet nutrition. Each product line consists of several sublines. For example, the home care line consists of dishwashing, fabric conditioning, and household cleaning products. Each line and subline has many individual items. Altogether, Colgate's product mix includes hundreds of items.

Product mix (or product portfolio)
The set of all product lines and items that a particular seller offers for sale.

A company's product mix has four important dimensions: width, length, depth, and consistency. Product mix *width* refers to the number of different product lines the company carries. For example, Colgate markets a fairly contained product mix, consisting of personal and home care products. By comparison, 3M markets more than 60,000 products and GE manufactures as many as 250,000 items, ranging from light bulbs to jet engines.

Product mix *length* refers to the total number of items the company carries within its product lines. Colgate typically carries many brands within each line. For example, its personal care line includes Softsoap liquid soaps and body washes, Irish Spring bar soaps, Speed Stick and Crystal Clean deodorants, and Plax mouthrinse.

› Product mix depth – Colgate toothpaste comes in many varieties.

Product mix *depth* refers to the number of versions offered of each product in the line. Colgate toothpaste comes in several varieties, ranging from Colgate Total, Colgate Tartar Control, Colgate 2-in-1, and Colgate Cavity Protection to Colgate Sensitive, Colgate Sparkling White and Colgate Kids Toothpaste. In Malaysia, Colgate even offers Colgate Kayu Sugi that comes with a halal certification for the Muslims. Each variety comes in its own special forms and formulations. For example, you can buy Colgate Total in regular, mint fresh stripe, whitening paste and gel, advanced fresh gel, or 2-in-1 liquid gel versions.[15]

Finally, the *consistency* of the product mix refers to how closely related the various product lines are in terms of end use, production requirements, distribution channels, or some other way. Colgate's product lines are consistent insofar as they are consumer products that go through the same distribution channels. The lines are less consistent insofar as they perform different functions for buyers.

These product mix dimensions provide the handles for defining the company's product strategy. The company can increase its business in four ways:

- It can add new product lines and thus, widen its product mix. In this way, its new lines build on the company's reputation in its other lines.
- It can lengthen its existing product lines to become a more full-line company.
- It can add more versions of each product and thus deepen its product mix.
- It can pursue more product line consistency—or less—depending on whether it wants to have a strong reputation in a single field or in several fields.

Branding Strategy: Building Strong Brands

Some analysts see brands as *the* major enduring asset of a company, outlasting the company's specific products and facilities. A former CEO of McDonald's says: "If every asset we own, every building, and every piece of equipment were destroyed in a terrible natural disaster, we would be able to borrow all the money to replace it very quickly because of the value of our brand … The brand is more valuable than the totality of all these assets."[16]

Brands are thus powerful assets that must be carefully developed and managed. In this section, we examine the key strategies for building and managing brands.

Brand Equity

Brands are more than just names and symbols. They are a key element in the company's relationships with consumers. Brands represent consumers' perceptions and feelings about a product and its performance—everything that the product or service *means* to consumers.

The real value of a strong brand is its power to capture consumer preference and loyalty. Brands vary in the amount of power and value they have in the marketplace. Some brands—such as Apple, Nike, Harley-Davidson, and Disney—become larger-than-life icons that maintain their power in the market for years, even generations. These brands win in the marketplace not simply because they deliver unique benefits or reliable service. Rather, they succeed because they forge deep connections with customers.

A powerful brand has high *brand equity*. **Brand equity** is the positive differential effect that knowing the brand name has on customer response to the product and its marketing. It's a measure of the brand's ability to capture consumer preference and loyalty. A brand has positive brand equity when consumers react more favorably to it than to a generic version of the same product. It has negative brand equity if consumers react less favorably than to an unbranded version.

Brand equity
The positive differential effect that knowing the brand name has on customer response to the product or service.

Brands vary in their power and value in the marketplace. Not only do strong brands like Coca-Cola, Google, YouTube, Apple, and Wikipedia deliver unique benefits, they forge deep connections with customers. Consumers respond to the brand; they know about and understand it. That familiarity leads to a strong, positive consumer–brand connection.

A brand with strong brand equity is a very valuable asset. *Brand valuation* is the process of estimating the total financial value of a brand. Measuring such value is difficult. However, according to one estimate, the brand value of Apple is $170 billion, Google is $120 billion, and Coca-Cola is $78 billion. Other brands that rate among the world's most valuable include Microsoft, IBM, Toyota, Samsung, McDonald's, and Amazon.[17] **Real Marketing 8.1** discusses brand leadership in Asia.

High brand equity provides a company with many competitive advantages. A powerful brand enjoys a high level of consumer brand awareness and loyalty. Because consumers expect stores to carry the brand, the company has more leverage in bargaining with resellers. Because the brand name carries high credibility, the company can more easily launch line and brand extensions. A powerful brand offers the company some defense against fierce price competition.

Above all, however, a powerful brand forms the basis for building strong and profitable customer relationships. The fundamental asset underlying brand equity is *customer equity*—the value of the customer relationships that the brand creates. A powerful brand is important, but what it really represents is a profitable set of loyal customers. The proper focus of marketing is building customer equity, with brand management serving as a major marketing tool. Says one marketing expert, "Companies need to be thought of as portfolios of customers and not portfolios of products."[18]

Building Strong Brands

Branding poses challenging decisions to the marketer. **Figure 8.6** shows that the major brand strategy decisions involve brand positioning, brand name selection, brand sponsorship, and brand development.

Real Marketing 8.1

Challenging Asia: The Pursuit of Brand Leadership

› Asian brands are slowly making their mark as leading in brand equity.

Take a look at the latest ranking of the world's 100 most valuable brands by branding consultancy Interbrand. This might be the much-touted Asian century, but apart from a few Japanese and South Korean examples, Asian brands, it seems, are notably failing to make much of a presence.

Aside from the "old boy's club" of Sony, Toyota, and Honda, there are many Asian companies making a strong impact in global markets. For example, Chinese names such as Haier, TCL, and Lenovo—brands that were not very well known outside China just a few years ago—have achieved sizeable global market share, benefitting from low-cost manufacturing and economies of scale to produce vast quantities of goods at highly-competitive prices.

However, by growing in market share they are increasingly faced with a new challenge. In the quest for sustainable and profitable long term growth, using such volume-driven strategies alone to achieve market share leadership is not enough.

Low Loyalty

While aggressive pricing may deliver broad market penetration, the flipside is that this position is often founded on razor-thin margins and with little consumer loyalty. In other words, their position is extremely fragile: their customers are, at best, fair weather friends.

In today's fast-changing competitor environments and with ever more fickle consumer trends, leadership in market share can evaporate almost overnight. So to build the basis of future profitability they must also seek to marry that position with brand leadership. Companies with brand leadership enjoy strong customer awareness, recall and loyalty, and as such are able to charge a price premium. Indeed, a select few those firms who have really sussed out brand leadership can not only charge a higher price for their products but also enjoy the services of customers as devoted brand evangelists. Anyone who has found themselves pinned in a corner by a fanatical Apple devotee will know the type.

Like market share leadership, however, brand leadership is also highly vulnerable. In the socially-connected, hyper-aware market, as customers become savvier they demand more of brands and brand owners. Thus, brand owners must be agile, plugged-in, and responsive to the high-flux environment in which they operate. Like any relationship, you need to give love to receive love, simply achieving brand leadership and resting on your laurels is not a viable option.

As an example let's take a look at the contrasting fortunes of two Asian consumer electronics giants, South Korea's Samsung and Japan's Sony.

Raising Equity

Ironically, Samsung started out in the electronics business primarily making products, which were then badged with other brands like Sony. Samsung itself was not seen as an especially strong brand. For years Samsung's own-branded products were categorized at the very low-end of the market—cheap, high volume, high turnover goods, and sold in Wal-Mart and other giant warehouse-style outlets.

It was a strategy that served the company well and delivered strong sales. However, by the late 1990s, Samsung management realized that sticking to the market share game alone in a highly competitive arena of consumer electronics would prove costly and unsustainable in the long-run. It needed to move to the next level and, as a result, the company made the decision to strategically invest in raising the brand image and equity of its product line.

Backed by heavy investment in product design and innovation, Samsung shifted focus to leverage its significant market shares in segments such as flat panel TVs and mobile phones, reinventing itself as a quality brand. The mobile phones segment, for example, a brand that just a few years earlier had been categorized as low-to-middle market, turned almost completely toward the premium-end of the market.

The effect was dramatic. In 2004, the Interbrand rankings put Samsung at number 21 in the world's top 100 brands, taking it up from the number 42 spot just three years earlier and doubling its brand value.

Crucially this also ranked Samsung just behind chief rival Sony—a company that for years had commanded the premium end of the consumer electronics market, seen as the unassailable industry leader in innovation and quality.

Convergence Leader

The rise of Samsung also marked a turning point for Sony. While Samsung retained its position through aggressive innovation, introducing a steady stream of new products and positioning itself as a leader in the emerging field of digital convergence, Sony stagnated and stumbled. Its highly siloed divisions meant innovation had become a slow and costly process. As a result the firm's grip on its premium brand status began to erode, and the effect on the company has been painful: a series of billion dollar losses and thousands of jobs cut.

Some analysts have suggested that Sony should consider exiting entirely from markets such as TV manufacturing—a sector where it was once seen as a leader. Samsung, by contrast, has seen its brand value soar and likewise its earnings. It currently contributes around 20 percent of South Korea's entire GDP. As companies seek to achieve sustainable and profitable growth, therefore, marrying market share leadership with brand leadership becomes all the more important.

The glue that binds these two together is customer intimacy, building an emotional connection between the consumer and the brand.

Connectivity

Nike, Microsoft, Apple, and Coca-Cola are perhaps some of the best examples of global brands that have achieved and sustained both market share leadership and brand leadership by pursuing customer intimacy. As well as aggressively pursuing cost reduction, innovation and market coverage these brands have also clearly articulated and executed strategies to invest in emotional branding, experiential marketing, developing strong brand communities and dedication to customer service.

In today's globalized, socially-connected market, building emotional connectivity is increasingly important and research has shown that emotional experiences associated with a brand carry a strong resonance with customers. Apple is one such brand that excels in these areas, building a brand presence through its network of slickly designed stores, passionate staff and commitment to service and quality—backed up by a steady stream of desirable products.

Another example is Nike's heavy investment in its network of Nike Town experience centers, as well as its frequently generous sponsorship in support of grassroots organizations and community events. This customer intimacy is what bonds consumers emotionally to the brand, building customer "heartware" and loyalty towards those companies enabling them to enjoy price premiums that translate to healthy bottom lines.

Source

Adapted from Prem Shamdasani, "Challenging Asia: The pursuit of Brand Leadership," *Think Business*, 20 July 2012. Partially reproduced with permission from Think Business, NUS Business School, National University of Singapore (http://thinkbusiness.nus.edu). Copyright NUS Business School.

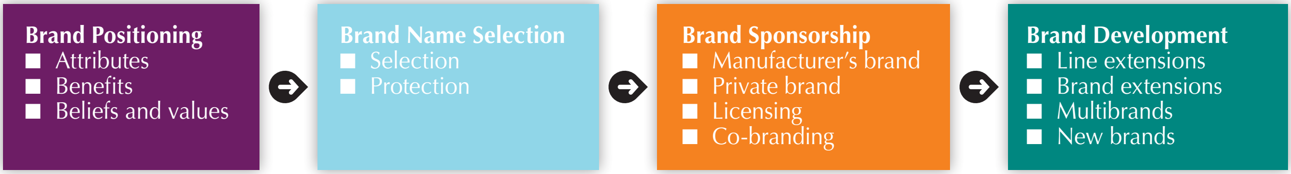


FIGURE 8.6
Major brand strategy decisions

Brand Positioning

Marketers need to position their brands clearly in target customers' minds. They can position brands at any of three levels.[19] At the lowest level, they can position the brand on *product attributes*. Thus, The Body Shop markets their products' natural, environmentally friendly ingredients, unique scents, and special textures. However, attributes are the least desirable level for brand positioning as competitors can easily copy attributes. More importantly, customers are not interested in attributes as such; they are interested in what the attributes will do for them.

A brand can be better positioned by associating its name with a desirable *benefit*. Thus, The Body Shop can go beyond product ingredients and talk about the resulting beauty benefits, such as clearer skin from its Tea Tree Oil Facial Wash and sun-kissed cheeks from its Bronzing Powder. Some successful brands positioned on benefits are Volvo (safety), FedEx (guaranteed on-time delivery), Nike (performance), and Lexus (quality).

The strongest brands go beyond attribute or benefit positioning. They are positioned on strong *beliefs and values*. Brands such as Starbucks and Jollibee rely less on a product's tangible attributes and more on creating the warmth, passion, and excitement surrounding a brand.

In a similar way, Procter & Gamble knows that, to parents, Pampers means much more than just containment and dryness:

Procter & Gamble – In the past, P&G's brands were thought of in terms of functional benefits. But after listening very closely to its customers, P&G learned that Pampers meant much more to them: Pampers is more about parent–child relationships and total baby care. Therefore, P&G wanted to create a brand experience to help parents and support babies as they grow and develop. How can a diaper help a baby's development? As most babies wear diapers 24/7 for almost three years, P&G's R&D began to focus on "How can we help babies sleep better?", as sleep is important for brain development. Such an orientation gave P&G the opportunity to help improve the lives of its consumers. The equity of great brands is something that both the consumer and the organization find inspirational. P&G's baby care business started to grow aggressively when it changed the positioning of Pampers from being about dryness to helping a mother with her baby's development. [20]

Procter & Gamble understands that especially to Chinese parents, a baby's brain development is important. Thus, it associated this concern with sleep, a benefit that its Pampers provide. Babies wearing Pampers sleep longer than babies who don't.

When positioning a brand, the marketer should establish a mission for the brand and a vision of what the brand must be and do. A brand is the company's promise to deliver a specific set of features, benefits, services, and experiences consistently to the buyers. The brand promise must be simple and honest. A motel, for example, offers clean rooms, low prices, and good service but does not promise expensive furniture or large bathrooms. In contrast, The Grand Hyatt offers luxurious rooms and a truly memorable experience but does not promise low prices.

Brand Name Selection

A good name can add greatly to a product's success. However, finding the best brand name is a difficult task. It begins with a careful review of the product and its benefits, the target market, and proposed marketing strategies. After that, naming a brand becomes part science, part art, and a measure of instinct. **Real Marketing 8.2** discusses the challenges of localizing brand names in Asia.

Desirable qualities for a brand name include the following:

- *It should suggest something about the product's benefits and qualities*. Examples: iPhone, Walkman, Scoot.
- *It should be easy to pronounce, recognize, and remember*. Short names help. Examples: Kao, Wii, Za. However, longer ones can sometimes be effective. Examples: Pokeman, Shokubutsu.
- *The brand name should be distinctive*. Examples: Qoo, Lexus.
- *It should be extendable*. Amazon.com began as an online bookseller but chose a name that allows expansion into other categories.
- *The name should translate well into foreign languages.* Suzuki sounds like "lose all your money" in Hokkien, a Chinese dialect. Hyatt does not translate easily and confers no meaning in China. So the company used the name "Yue" (悦) which means "Imperial," an identification which many Chinese aspire to be aligned with. It then came up with courtly variations to match its sub-brands: "Kai Yue" (凯悦), "Jun Yue" (君悦), and "Bo Yue" (柏悦) for the Regency, Grand, and Park Hyatt respectively.[21]

One example of a company that exercised great consideration in its choice of a Chinese name is Omnicom. Frank Chen, then CEO of Interbrand China said, "Omnicom is a great name in English, but difficult to pronounce for non-native English speakers." Hence, Interbrand searched for a Chinese name that would translate well across seven different Chinese dialects as well as capture the spirit of cooperation and the scale of Omnicom's business as implied by its English name. The result was "Hong Meng" (宏盟), which in English means "Magnificent Alliance."[22]

Once chosen, the brand name must be protected. A brand name cannot be registered if it infringes on existing brand names. In China, Starbucks successfully

❯ The Modern Toilet Restaurant in Hong Kong has a distinctive and arresting name. The restaurant has its chairs and cutlery in the form of toilet amenities. But what does one think of eating with sanitary wares?

Real Marketing 8.2

Localizing Chinese Brand Names:
Very Important but Notoriously Tricky

After a long day's work, an average upscale Beijinger can't wait to dash home, lace on a comfortable pair of Enduring and Persevering, pop the top on a refreshing can of Tasty Fun, then hop into his Dashing Speed and head to the local tavern for a frosty glass of Happiness Power with friends. Translation? In China, those are the brand-name meanings for Nike, Coca- Cola, Mercedes, and Heineken, respectively.

To Westerners, such names sound pretty silly, but to brands doing business in China, the world's biggest and fastest growing consumer market, they are no laughing matter. Perhaps more than anywhere else in the world, brand names in China take on deep significance. Finding just the right name can make or break a brand. "Often, a company's most important marketing decision in China is localizing its name," asserts one global branding analyst. "It's also a notoriously tricky one."

Ideally, to maintain global consistency, the Chinese name should sound similar to the original, while at the same time conveying the brand's benefits in meaningful symbolic terms. Nike's Chinese brand name, Nai ke, does this well. Not only does it sound the same when pronounced in Chinese, its "Enduring and Persevering" meaning powerfully encapsulates the "Just Do It" essence of the Nike brand the world over. Similarly, P&G's Tide is Taizi in China, which translates to "gets out the dirt," a perfect moniker for a tough-acting detergent. Coca-Cola's Chinese name—Ke kou ke le—dates all the way back to 1928. It not only sounds much like the English name, the Chinese symbols convey happiness in the mouth, a close fit to Coca-Cola's current "open happiness" positioning. Other names that wear well on Chinese ears while also conveying a brand's essence include Lay's snack foods—Le shi ("happy things"); Reebok—Rui bu ("quick steps"); and Colgate—Gau lu jie ("revealing superior cleanliness").

Chinese brand names can convey subtle meanings that might not be apparent to Western sensibilities. For example, "Dashing Speed" seems appropriate enough for an upscale automobile brand like Mercedes. So does BMW's name—Bao Ma—which translates to "Precious Horse." However, in China, "precious" has a feminine connotation, whereas "dashing speed" is more masculine. This works out well for both car makers, which target different genders among China's upper crust. For instance, BMW is a market leader among affluent Chinese women.

Some brand names translate naturally. For example, when Garnier introduced its Clear shampoo in China, it lucked out. The Chinese word for "clear"—Qing—is one of a select few Chinese words with unusually positive associations that are used in many brand names. Garnier added the word yang, which means "flying" or "scattering to the wind." According to the director of Garnier's brand consultancy, the Qing Yang brand name connotes "very light, healthy, and happy—think of hair in the air," just what the brand intends. Other universally positive Chinese words commonly found in brand names include "le" and "xi" (happy), "li" (strength or power), "ma" (horse), and "fu" (lucky). Thus, Kia sells one model in China named Qian li ma, or "thousand kilometer horse," suggesting unusual strength.

There was a time when Western companies entering China simply created a brand name that was phonetically similar to the domestic name, even if it had no meaning in the Chinese language. In fact, such obviously foreign looking and sounding names often communicated a sense of Western cache. For example, Cadillac went with Ka di la ke—a meaningless group of sounds that gave status to the luxury brand. And McDonald's got away with Mai dang lao, a term that sounds like the English version but whose characters translate into gibberish— "wheat," "should," and "labor." Other global companies with short names such as IBM or Gap simply expect consumers to learn their Western names.

Today, however, with so many foreign brands entering the crowded Chinese market, most companies expect more of their Chinese brand names. If Chinese consumers can't pronounce a name or don't know what it stands for, they are much less likely to buy it or talk about it with others, in person or in social media. Instead, with some work, companies can come up with names that will engage and inspire buyers. In China, it's not Subway, it's Sai bai wei—"better than 100 tastes." It's not Marriott but Wan Hao, or "10,000 wealthy elites." However, finding the right names and characters can be a daunting challenge. Brand name development in China has become more of a science than an art, involving global branding consultants, computer software, linguistic analysis, and extensive consumer testing. Some global names require careful recrafting. For example, Microsoft had to rethink the introduction of its Bing search engine in China, where the most common translations of the character pronounced "bing" are words like "defect" or "virus," not good associations for a digital product. Microsoft changed the name of its product in China to Bi ying, which means "very certain to respond." Still, the brand is having difficulty shaking the resemblance to the original name.

Similarly, S.C. Johnson belatedly renamed its popular Mr. Muscle line of cleaners to Mr. Powerful (Weimeng xiansheng) in China, where Mr. Muscle had a less compelling second meaning—"Mr. Chicken Meat." And French automaker Peugeot thought it had a winning brand name with Biao zhi, only to learn too late that it was too close to biaozi, slang for prostitute. It's no surprise that the brand generated more off-color jokes than sales.

Sources

"Lost in Translation? Pick Your Chinese Brand Name Carefully," *Shanghalist*, 28 March, 2014, http:// shanghaiist.com/2014/03/28/hutong-school-pick-your-chinese-brand-name-carefully.php; Michael Wines, "Picking Brand Names in China Is a Business Itself," *New York Times*, 12 November, 2011, p. A4; Carly Chalmers, "12 Amazing Translations of Chinese Brand Names," *todaytranslations*, 27 August, 2013, www.todaytranslations.com/blog/12-amazing-translations-of-chinese-brand-names/; and Angela Doland, "Why Western Companies Like LinkedIn Need Chinese Brand Names," *Advertising Age*, 5 March, 2014, adage.com/print/291960/.

won the copyright battle against a Chinese chain, Shanghai Xingbake Coffee Company (上海星巴克咖啡馆), which copied its logo and name. "Xing Ba Ke" sounded phonetically similar to the pronunciation of Starbucks in Chinese. "Xing" means "star" in Chinese and "Ba Ke" is the phonetical equivalent of "bucks". Shanghai Xingbake's green-and-white logo was also very similar to the Starbucks design.[23] In India, ice slush vendors have used a variation of the name "Google" to sell their ice candy called *golas*. These vendors have bottles of colorful syrups lining their carts, and an ice crusher in the middle. They churn out bowls of ice candy. Given that trademark protection laws in India are lax, these enterprising vendors have called their *golas* "Gogola," a play on the famous "Google" brand name.

Many firms try to build a brand name that will eventually become identified with the product category. Brand names such as Kleenex, Levi's, Scotch Tape, and Ziploc have succeeded in this. However, their very success may threaten the company's rights to the name. Many originally protected brand names—such as cellophane, aspirin, nylon, kerosene, yo-yo, trampoline, escalator, and thermos—are now generic names that any seller can use. To protect their brands, marketers present them carefully using the word "brand" and the registered trademark symbol, as in "BAND-AID® Brand Adhesive Bandages."

Names should also keep up with the times and remain fresh. When Reebok introduced a limited collection called Rbk, it became a huge hit. Youths like it because it is written in SMS lingo. Additionally, because it has only three letters, Reebok could make the name bigger. Nowadays, people don't call Apple "Apple." Its functions have created unique branding—iPods, iPhones, iPads.

The "i" has become the differentiator and identity for Apple brands.[24] Care in naming is needed in Asia where there are different writing styles and history as the following example shows:

❯ Previously, Citibank's Chinese name in China and Taiwan meant Bank of Flower Flag because the flag was very colorful and looked like a flower. In other Chinese communities, its Chinese name was a translation of one of its previous stakeholders.

Citibank – Previously, Citibank had two different Chinese names. In China and Taiwan, Citibank is 花旗银行, meaning Bank of Flower Flag. This is the old name of the American flag because it has lots of stars, stripes, and colors, and looks like a flower. In the 20th century, the American flag placed at each Citibank branch was recognized by the Chinese as the symbol of Citibank, and hence the name "Bank of Flower Flag." In Hong Kong, Singapore, and other Chinese communities like Greater New York, Citibank's Chinese name was 万国宝通银行. This name is the direct translation of International Banking Corporation, one of the predecessors of Citibank. Citibank has since unified its Chinese names to 花旗银行.

Brand Sponsorship

A manufacturer has four sponsorship options. The product may be launched as a *manufacturer's brand* (or national brand), as when Hitachi sells its output under its own brand names. Or the manufacturer may sell to resellers who give it a *private brand* (also called a *store brand* or *distributor brand*). Although most manufacturers create their own brand names, others market *licensed brands*. Finally, two companies can join forces and *co-brand* a product.

Manufacturer's Brands versus Private Brands

Manufacturers' brands have long dominated the retail scene. However, an increasing number of retailers and wholesalers have created their own **private brands** (or **store brands**). Hong Kong's Watsons convenience store chain has branded bottled water, swabs, tissue paper, and other sundries under its own name. A Nielsen survey found that 74 percent of Singaporeans polled found private brands extremely good value for money, while 55 percent found the quality to be at least on par with the big brands.[25]

Private brand (or store brand)
A brand created and owned by a reseller of a product or service.

In the battle between manufacturers' and private brands, retailers have many advantages. They control what products they stock, where they go on the shelf, what prices they charge, and which ones they will feature in their advertisements. Most retailers also charge manufacturers *slotting fees*—payments from the manufacturers before the retailers will accept new products and find "slots" for them on their shelves.

Private brands can be hard to establish and costly to stock and promote. However, they yield higher profit margins for the reseller. They also give resellers exclusive products that cannot be bought from competitors, resulting in greater store traffic and loyalty. Retailers price their store brands lower than comparable manufacturers' brands, thereby appealing to budget-conscious shoppers, especially in difficult economic times. German wholesaler Metro Cash and Carry offers private labels in food and non-food segments in India under names like Aro, H-line, and Fine. It studies the needs of its customers and customizes its products and private label range for different regions in India. For instance, its range of private-label tea flavors has expanded to include Assam, Masala, and Ginger.

› **Private brands** – Watsons markets a wide range of products under its private brand.

To fend off private brands, leading brand marketers must invest in R&D to bring out new brands, new features, and continuous quality improvements. They must design strong advertising programs to maintain high awareness and preference. They must find ways to "partner" with major distributors in a search for distribution economies and improved joint performance.

› Even instant noodles come in packages with Sesame Street characters to appeal to children.

Licensing

Most manufacturers take years and spend millions to create their own brand names. However, some companies license names or symbols previously created by other manufacturers, names of well-known celebrities, or characters from popular movies and books. For a fee, any of these can provide an instant and proven brand name.

Apparel and accessories sellers pay royalties to adorn their products—from blouses to ties, and linens to luggage—with the names or initials of well-known fashion innovators such as Calvin Klein, Gucci, or Armani. Sellers of children's products attach an almost endless list of character names to clothing, toys, school supplies, dolls, water bottles, and other items. Licensed character names range from classics such as Hello Kitty and Disney to Sesame Street characters.

Co-branding

Co-branding occurs when established brand names of two different companies are used on the same product. For example, American Express co-branded with Singapore Airlines to create a card for the latter's Singapore-based PPS Club members. In most co-branding situations, one company licenses another company's well-known brand to use in combination with its own.

Co-branding
The practice of using the established brand names of two different companies on the same product.

Co-branding offers many advantages. Because each brand dominates in a different category, the combined brands create broader consumer appeal and greater brand equity. Co-branding also allows a company to expand its existing brand into a category it might otherwise have difficulty entering alone.

Co-branding also has limitations. Such relationships usually involve complex legal contracts and licenses. Co-branding partners must carefully coordinate their advertising, sales promotion, and other marketing efforts. Finally, when co-branding, each partner must trust that the other will take good care of its brand.

Brand Development

A company has four choices when it comes to developing brands (see **Figure 8.7**). It can introduce *line extensions*, *brand extensions*, *multibrands*, or *new brands*.

Brand name		Existing	New
	Existing	Line extensions	Brand extensions
	New	Multibrands	New brands

FIGURE 8.7
Brand development strategy

Line Extensions

Line extensions occur when a company extends existing brand names to new forms, colors, sizes, ingredients, or flavors of an existing product category. The Virgin brand, with its flamboyant owner and promoter, Richard Branson, seeks to nest all its brands under the global umbrella of the Virgin brand. The brand is built on "image, quality, and prominence." The vast majority of all new-product activity consists of line extensions.

Line extension
Extending an existing brand name to new forms, colors, sizes, ingredients, or flavors of an existing product category.

A company might use line extensions as a low-cost, low-risk way to introduce new products. Or it might want to meet consumer desire for variety, to use excess capacity, or simply to command more shelf space from resellers. However, line extensions involve some risks. An overextended brand name might lose its specific meaning, or heavily extended brands can cause consumer confusion or frustration.

Line extension – There are many different types of Coca-Cola available. Visit www.virtualvender.coca-cola.com to find out which types are being sold in various regions around the world.

Want a Coke? Pick from more than 20 varieties. In no-calorie versions alone, Coke comes in two sub-brands—Diet Coke, and Coke Zero. Throw in the flavored and free versions—Diet Cherry Coke, Diet Coke with Lemon, Diet Coke with Lime, Diet Coke Black Cherry Vanilla, and Caffeine-Free Diet Coke—and you reach a dizzying nine diets from Coke. And that doesn't count "mid-calorie" Coca-Cola C2. Each sub-brand has its own hype—Diet Coke tells you to "light it up," and Coke Zero allows you to "enjoy Coke-ness with zero calories." And Coca-Cola C2 has "1/2 the carbs, 1/2 the calories, all the great taste." But it's unlikely that many consumers fully appreciate the differences. Instead, the glut of extensions will likely cause what one expert calls "profusion confusion." Laments one cola consumer, "How many versions of Diet Coke do they need?"[26]

Another risk is that the sales of an extension may come at the expense of other items in the line. For example, the original Hershey's Kisses has morphed into a full line of Kisses, such as the Rich Dark Chocolate Hershey's Kisses, Hershey Kisses Filled with Caramel, and a dozen others, making the original Hershey's Kisses brand seem like just another flavor. A line extension works best when it takes sales away from competing brands, not when it "cannibalizes" the company's other items.

Brand Extensions

A **brand extension** extends a current brand name to new or modified products in a new category. For example, Kimberly-Clark extended its market-leading Huggies brand from only disposable diapers to a full line of toiletries for tots, from shampoos, lotions, and diaper-rash ointments to baby wash, disposable washcloths, and disposable changing pads.

Brand extension
Extending an existing brand name to new product categories.

A brand extension gives a new product instant recognition and faster acceptance. It also saves the high advertising costs usually required to build a new brand name. At the same time, a brand extension strategy involves some risk. Brand extensions such as Bic pantyhose, Heinz pet food, and Clorox laundry detergent met early deaths; such extensions may confuse the image of the main brand. And if a brand extension fails, it may harm consumer attitudes toward the other products carrying the same brand name.

Moreover, a brand name may not be appropriate for a particular new product, even if it is well-made and satisfying—would you consider buying a Toyota cake-decorating kit or an Evian water-filled padded bra? Companies that are tempted to transfer a brand name must research how well the brand's associations fit the new product.[27]

Multibrands

Companies often introduce additional brands in the same category. Thus, Procter & Gamble markets many different brands in each of its product categories. *Multibranding* offers a way to establish different features and appeal to different buying motives. It also allows a company to lock up more reseller shelf space. L'Oréal markets at least 14 different brands in China, grouping them in various pricing bands. Luxury brands are priced at a premium; semi-selective brands such as L'Oréal Paris at a lower premium; followed by more mass-market distributed brands like Garnier; and finally, economical brands such as Mininurse. L'Oréal finds that in China, pricing can be stretched further apart than elsewhere.[28]

A major drawback of multibranding is that each brand might obtain only a small market share, and none may be very profitable. The company may end up spreading its resources over many brands instead of building a few brands to a highly profitable level. These companies should reduce the number of brands they sell in a given category and set up tighter screening procedures for new brands.

New Brands

A company might come to believe that the power of its existing brand name is waning and that a new brand name is needed. Or it may create a new brand name when it enters a new product category for which none of the company's current brand names is appropriate. For example, Toyota created the separate Lexus brand for high-end consumers and the Scion brand targeted at Millennial consumers.

As with multibranding, offering too many new brands can result in a company spreading its resources too thin. And in some industries, such as consumer packaged goods, consumers and retailers have become concerned that there are already too many brands, with too few differences between them. Thus, Procter & Gamble and other large consumer product marketers are pursuing *megabrand* strategies—weeding out weaker brands and focusing their marketing dollars only on brands that can achieve the top two market share positions in their categories.

Managing Brands

Companies must manage their brands carefully. First, the brand's positioning must be continuously communicated to consumers. Major brand marketers often spend huge amounts on advertising to create brand awareness and to build preference and loyalty.

Such advertising campaigns can help to create name recognition, brand knowledge, and maybe even some brand preference. However, brands are not maintained by advertising, but by the *brand experience*. Today, customers come to know a brand through a wide range of contacts and touch points. These include advertising, but also personal experience with the brand, word of mouth, company Web pages, and many others. The company must put as much care into managing these touch points as it does into producing its ads. "A brand is a living entity," says former Disney chief executive Michael Eisner, "and it is enriched or undermined cumulatively over time, the product of a thousand small gestures."[29]

A brand's positioning will not fully take hold unless everyone in the company "lives" the brand. Therefore, the company needs to train its people to be customer-centered. Better yet, the company should carry on internal brand building to help employees understand and be enthusiastic about the brand promise. Many companies go a step further by training and encouraging their distributors and dealers to serve their customers well. Isetan and Singapore Airlines have succeeded in turning their employees into enthusiastic brand builders.

Finally, companies need to periodically audit their brands' strengths and weaknesses.[30] They should ask: Does our brand excel at delivering benefits that consumers truly value? Is the brand properly positioned? Do all of our consumer touch points support the brand's positioning? Do the brand's managers understand what the brand means to consumers? Does the brand receive proper, sustained support? The brand audit may reveal brands that need more support, brands that need to be dropped, or brands that must be rebranded or repositioned because of changing customer preferences or new competitors.

Rebranding may also be required when major corporate developments such as mergers and acquisitions occur, as shown by the following example about SoftBank:

Japan's SoftBank, a conglomerate of Internet and finance-related companies, bought Vodafone in 2006. But there was a concern that the Japanese may perceive it to assume Vodafone's shortcomings. Thus, SoftBank needed to rebrand itself following the takeover. In Tokyo, there is much clutter and a general belief that as much information should be crammed into an advertising message as possible. SoftBank, in contrast, employed a minimalist strategy with

› SoftBank launched a rebranding campaign after its takeover of Vodafone.

a generous but tactful use of white space. Its first series of ads featured the logos of Vodafone and SoftBank and the starting date of the takeover, with the dominant color and design being that of SoftBank's and the tagline: "Yesterday Vodafone, Today SoftBank." The ads featured SoftBank's new logo, two parallel bars that resemble an equal sign, for the first time. This design served to indicate equivalence between SoftBank and other elements that appear in its advertising, including iPod = SoftBank; Brad Pitt = SoftBank; and Cameron Diaz = SoftBank. SoftBank also used the same strategy online. Unlike DoCoMo and au's, SoftBank's site is clean, stylish, and easy to navigate. It has an "English" version that is nearly identical in terms of visuals and content.[31]

Services Marketing

Service industries vary greatly. *Governments* offer services through courts, employment services, hospitals, military services, police and fire departments, postal services, and schools. *Private not-for-profit organizations* offer services through museums, charities, churches, colleges, foundations, and hospitals. A large number of *business organizations* offer services—airlines, banks, hotels, insurance companies, consulting firms, medical and legal practices, entertainment companies, real-estate firms, retailers, and others.

The Nature and Characteristics of a Service

A company must consider four special service characteristics when designing marketing programs: *intangibility*, *inseparability*, *variability*, and *perishability* (see **Figure 8.8**).

Service intangibility means that services cannot be seen, tasted, felt, heard, or smelled before they are bought. For example, people undergoing cosmetic surgery cannot see the result before the purchase. Airline passengers have nothing but a ticket and the promise that they and their luggage will arrive safely at the intended destination. People buying products online trust that they will receive the products that they paid for. To reduce uncertainty, buyers look for "signals" of service quality. They draw conclusions about quality from the place, people, price, equipment, and communications that they can see.

Service intangibility
Services cannot be seen, tasted, felt, heard, or smelled before they are bought.

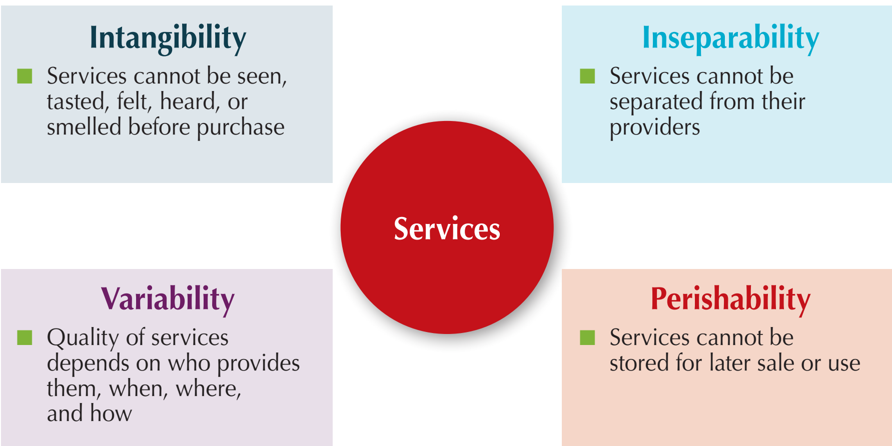


FIGURE 8.8
Four service characteristics

Therefore, the service provider's task is to make the service tangible in one or more ways and to send the right signals about quality. One analyst calls this *evidence management*, in which the service organization presents its customers with organized, honest evidence of its capabilities.

Service inseparability
Services are produced and consumed at the same time and cannot be separated from their providers.

Service variability
The quality of services may vary greatly, depending on who provides them and when, where, and how.

Service perishability
Services cannot be stored for later sale or use.

Physical goods are produced, then stored, later sold, and still later consumed. In contrast, services are first sold, then produced and consumed at the same time. **Service inseparability** means that services cannot be separated from their providers, whether the providers are people or machines. If a service employee provides the service, then the employee becomes a part of the service. Because the customer is also present as the service is produced, *provider–customer interaction* is a special feature of services marketing. Both the provider and the customer affect the service outcome.

Service variability means that the quality of services depends on who provides them as well as when, where, and how they are provided. For example, some hotels—Shangri-La Hotels and Resorts—have reputations for providing better service than others. Still, within a given Shangri-La Hotel, one registration counter employee may be cheerful and efficient, whereas another may be unpleasant and slow. Even the quality of a single Shangri-La employee's service varies according to his or her energy and frame of mind at the time of each customer encounter.

Service perishability means that services cannot be stored for later sale or use. Some doctors charge patients for missed appointments because the service value existed only at that point and disappeared when the patient did not show up. When demand fluctuates, service firms often have difficult problems. For example, because of rush hour demand, public transportation companies have to own much more equipment than they would if demand were even throughout the day. Thus, service firms often design strategies for producing a better match between demand and supply. Hotels and resorts charge lower prices in the off-season to attract more guests. And restaurants hire part-time employees to serve during peak periods.

Marketing Strategies for Service Firms

Just like manufacturing businesses, good service firms use marketing to position themselves strongly in chosen target markets. The Ritz-Carlton Hotel positions itself as offering a memorable experience that "enlivens the senses, instills well-being, and fulfills even the unexpressed wishes and needs of our guests." These and other service firms establish their positions through traditional marketing mix activities. However, because services differ from tangible products, they often require additional marketing approaches.

The Service–Profit Chain

Service–profit chain
The chain that links service firm profits with employee and customer satisfaction.

In a service business, the customer and front-line service employee *interact* to create the service. Effective interaction, in turn, depends on the skills of front-line service employees and on the support processes backing these employees. Thus, successful service companies focus their attention on *both* their customers and their employees. They understand the **service–profit chain**, which links service firm profits with employee and customer satisfaction. This chain consists of five links:[32]

- *Internal service quality.* Superior employee selection and training, a quality work environment, and strong support for those dealing with customers, which results in …
- *Satisfied and productive service employees.* More satisfied, loyal, and hardworking employees, which results in …

- *Greater service value.* More effective and efficient customer value creation and service delivery, which results in …
- *Satisfied and loyal customers.* Satisfied customers who remain loyal, repeat purchases, and refer other customers, which results in …
- *Healthy service profits and growth.* Superior service firm performance.

Service marketing requires more than just traditional external marketing using the four Ps. **Figure 8.9** shows that service marketing also requires *internal marketing* and *interactive marketing*. **Internal marketing** means that the service firm must orient and motivate its customer-contact employees and supporting service people to work as a *team* to provide customer satisfaction. Marketers must get everyone in the organization to be customer-centered. In fact, internal marketing must *precede* external marketing. For example, Ritz-Carlton orients its employees carefully, instills in them a sense of pride, and motivates them by recognizing and rewarding outstanding service deeds.

Internal marketing
Orienting and motivating customer-contact employees and the supporting service people to work as a team to provide customer satisfaction.

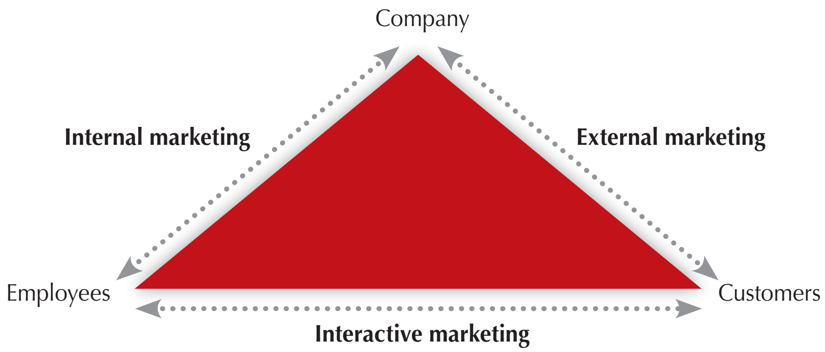


FIGURE 8.9
Three types of service marketing

Interactive marketing means that service quality depends heavily on the quality of the buyer–seller interaction during the service encounter. In product marketing, product quality often depends little on how the product is obtained. But in services marketing, service quality depends on both the service deliverer and the quality of the delivery. Service marketers, therefore, have to master interactive marketing skills. Thus, Ritz-Carlton selects only "people who care about people" and instructs them carefully in the fine art of interacting with customers to satisfy their every need.

Interactive marketing
Training service employees is the fine art of interacting with customers to satisfy their needs.

Today, as competition and costs increase, and as productivity and quality decrease, more service marketing sophistication is needed. Service companies face three major marketing tasks: They want to increase their *service differentiation*, *service quality*, and *service productivity*.

Managing Service Differentiation

In these days of intense price competition, service marketers often complain about the difficulty of differentiating their services from those of competitors. To the extent that customers view the services of different providers as similar, they care less about the provider than the price.

The solution to price competition is to develop a differentiated offer, delivery, and image. The *offer* can include innovative features that set one company's offer apart from competitors' offers. The Westin Hotel in Kuala Lumpur distinguishes itself by offering its guests complimentary exotic drinks such as *jungpana* with basil leaves and oranges in its lobby. Guests appreciate this gesture especially after a day out in Malaysia's humid weather. Airlines differentiate their offers through frequent-flyer award programs and special services. For example, even economy-class passengers aboard Singapore Airlines enjoy audio-video on demand with more than 1,000 entertainment options. Singapore Airlines' Business Class seats in the A380, A340-500, and B777-300ER are almost 50 percent wider than

❯ Service differentiation – The Westin Hotel in Kuala Lumpur offers complimentary refreshing drinks in its lobby as a courtesy to its guests.

most products in this class. All passengers are offered World Gourmet Cuisine created by Singapore Airlines' International Culinary Panel, while First Class, Business Class, and Singapore Airlines Suites passengers enjoy soft furnishings designed exclusively for the airline by Givenchy.

Service companies can differentiate their service *delivery* by having more able and reliable customer-contact people, by developing a superior physical environment in which the service product is delivered or by designing a superior delivery process. For example, some grocery chains offer online shopping and home delivery as a better way to shop than having to drive, park, wait in line, and tote groceries home.

Finally, service companies can also work on differentiating their *images* through symbols and branding. Well-known service symbols include Singapore Airlines' bird and McDonald's Golden Arches.

Managing Service Quality

A service firm can differentiate itself by delivering consistently higher quality than its competitors. Like manufacturers, most service industries strive for customer-driven quality. And like product marketers, service providers need to identify the expectations customers have concerning service quality.

Unfortunately, service quality is harder to define and judge than product quality. For instance, it is harder to agree on the quality of a haircut than on the quality of a hair dryer. Customer retention is perhaps the best measure of quality—a service firm's ability to hang on to its customers depends on how consistently it delivers value to them.

Top service companies set high service-quality standards. They watch service performance closely, both their own and that of competitors. They do not settle for merely good service; they aim for 100 percent defect-free service.

Unlike product manufacturers who can adjust their machinery and inputs until everything is perfect, service quality will always vary, depending on the interactions between employees and customers. Even the best companies will have an occasional late delivery or grumpy employee. However, good *service recovery* can turn angry customers into loyal ones. In fact, good recovery can win more customer purchasing and loyalty than if things had gone well in the first place. Therefore, companies should take steps not only to provide good service every time but also to recover from service mistakes when they occur.

Managing Service Productivity

With their costs rising rapidly, service firms are under great pressure to increase service productivity. They can do so in several ways. They can either train current employees in a better way, or hire new ones who will work harder or more skillfully. Or, they can increase the quantity of their service by compromising on some quality. The provider can "industrialize the service" by adding equipment and standardizing production, as in McDonald's assembly-line approach to fast-food retailing. Finally, the service provider can use technology to make it more productive.

However, companies must avoid pushing productivity so hard that doing so reduces quality. Attempts to industrialize a service or to cut costs can make a service company more efficient in the short run, but can also reduce its ability in the long run to innovate, maintain service quality, or respond to consumer needs and desires. Many airlines are learning this lesson the hard way as they attempt to streamline and economize in the face of rising costs.

Thus, in attempting to improve service productivity, companies must be mindful of how they create and deliver customer value. In short, they should be careful not to take the "service" out of service.

❯ It is important to strive for service quality without pushing productivity too hard.

Reviewing Objectives and Key Terms

A product is more than a simple set of tangible features. Each product or service offered to customers can be viewed on three levels. The *core customer value* consists of the core problem-solving benefits that consumers seek when they buy a product. The *actual product* exists around the core and includes the quality level, features, design, brand name, and packaging. The *augmented product* is the actual product plus the various services and benefits offered with it, such as a warranty, free delivery, installation, and maintenance.

OBJECTIVE 1 Define product and the major classifications of products and services. (pp. 247–252)

Broadly defined, a *product* is anything that can be offered to a market for attention, acquisition, use, or consumption that might satisfy a want or need. Products include physical objects but also services, events, persons, places, organizations, ideas, or mixtures of these entities. *Services* are products that consist of activities, benefits, or satisfactions offered for sale that are essentially intangible, such as banking, hotel, tax preparation, and home-repair services.

Products and services fall into two broad classes based on the types of consumers that use them. *Consumer products*—those bought by final consumers—are usually classified according to consumer shopping habits (convenience products, shopping products, specialty products, and unsought products). *Industrial products*—purchased for further processing or for use in conducting a business—include materials and parts, capital items, and supplies and services. Other marketable entities—such as organizations, persons, places, and ideas—can also be thought of as products.

OBJECTIVE 2 Describe the decisions companies make regarding their individual products, product lines, and product mixes. (pp. 252–260)

Individual product decisions involve product attributes, branding, packaging, labeling, and product support services. *Product attribute* decisions involve product quality, features, and style and design. *Branding* decisions include selecting a brand name and developing a brand strategy. *Packaging* provides many key benefits, such as protection, economy, convenience, and promotion. Package decisions often include designing *labels*, which identify, describe, and possibly promote the product. Companies also develop *product support services* that enhance customer service and satisfaction and safeguard against competitors.

Most companies produce a product line rather than a single product. A *product line* is a group of products that are related in function, customer-purchase needs, or distribution channels. All product lines and items offered to customers by a particular seller make up the *product mix*. The mix can be described by four dimensions: width, length, depth, and consistency. These dimensions are the tools for developing the company's product strategy.

OBJECTIVE 3 Discuss branding strategy—the decisions companies make in building and managing their brands. (pp. 260–272)

Some analysts see brands as *the* major enduring asset of a company. Brands are more than just names and symbols; they embody everything that the product or the service *means* to consumers.

Brand equity is the positive differential effect that knowing the brand name has on customer response to the product or the service. A brand with strong brand equity is a very valuable asset.

In building brands, companies need to make decisions about brand positioning, brand name selection, brand sponsorship, and brand development. The most powerful *brand positioning* builds around strong consumer beliefs and values. *Brand name selection* involves finding the best brand name based on a careful review of product benefits, the target market, and proposed marketing strategies. A manufacturer has four *brand sponsorship* options: it can launch a *national brand* (or manufacturer's brand), sell to resellers who use a *private brand*, market *licensed brands*, or join forces with another company to *co-brand* a product. A company also has four choices when it comes to developing brands. It can introduce *line extensions*, *brand extensions*, *multibrands*, or *new brands*.

Companies must build and manage their brands carefully. The brand's positioning must be continuously communicated to consumers. Advertising can help. However, brands are not maintained by advertising but by customers' *brand experiences*. Customers come to know a brand through a wide range of contacts and interactions. The company must put as much care into managing these touch points as it does into producing its ads. Companies must periodically audit their brands' strengths and weaknesses.

OBJECTIVE 4 Identify the four characteristics that affect the marketing of services and the additional marketing considerations that services require. (pp. 272–276)

Services are characterized by four key characteristics: they are *intangible*, *inseparable*, *variable*, and *perishable*. Each characteristic poses problems and marketing requirements. Marketers work to find ways to make the service more tangible, increase the productivity of providers who are inseparable from their products, standardize quality in the face of variability, and improve demand movements and supply capacities in the face of service perishability.

Good service companies focus attention on *both* customers and employees. They understand the *service–profit chain*, which links service firm profits with employee and customer satisfaction. Services marketing strategy calls not only for external marketing but also for *internal marketing* to motivate employees and *interactive marketing* to create service delivery skills among service providers. To succeed, service marketers must create *competitive differentiation*, offer high *service quality*, and find ways to increase *service productivity*.

Key Terms

OBJECTIVE 1

Product (p 245)
Service (p 245)
Consumer product (p 247)
Convenience product (p 247)
Shopping product (p 247)
Specialty product (p 247)
Unsought product (p 247)
Industrial product (p 248)
Social marketing (p 250)

OBJECTIVE 2

Product quality (p 251)
Brand (p 252)
Packaging (p 254)
Product line (p 255)
Product mix (or product portfolio) (p 257)

OBJECTIVE 3

Brand equity (p 259)
Private brand (or store brand) (p 267)
Co-branding (p 267)
Line extension (p 268)
Brand extension (p 269)

OBJECTIVE 4

Service intangibility (p 271)
Service inseparability (p 272)
Service variability (p 272)
Service perishability (p 272)
Service–profit chain (p 272)
Internal marketing (p 273)
Interactive marketing (p 273)

Discussing the Concepts

1. Define *product* and the three levels of product. (AACSB: Communication)
2. Compare and contrast industrial products and consumer products.
   (AACSB: Communication; Reflective Thinking)
3. Explain the importance of product quality and discuss how marketers use quality to create customer value. (AACSB: Communication)
4. Compare and contrast the four brand sponsorship options available to a manufacturer and give an example of each.
   (AACSB: Communication; Reflective Thinking)
5. Discuss the brand development strategies marketers use to develop brands. Give an example of each strategy.
   (AACSB: Communication; Reflective Thinking)
6. Describe the four characteristics of services that marketers must consider when designing marketing programs. According to these characteristics, how do the services offered by a massage therapist differ from those offered by a grocery store?
   (AACSB: Communication; Reflective Thinking)

Applying the Concepts

1. What do Betty Crocker, Old El Paso, Cheerios, and Yoplait have in common? They are all familiar brands that are part of the General Mills product mix. Visit the General Mills Web site (www.generalmills.com) and examine its list of brands. Name and define the four dimensions of a company's product mix and describe General Mills' product mix based on these dimensions.
   (AACSB: Communication; Reflective Thinking; Use of IT)
2. Branding is not only for products and services; countries are getting in on the action too, as you learned from reading about *place marketing* earlier in the chapter. In a small group, develop a brand identity proposal for your country. Present your idea to the rest of the class and explain the meaning you are trying to convey.
   (AACSB: Communication; Reflective Thinking)
3. A product's package is often considered a "silent salesperson." It is the last marketing front before consumers make a selection in the store. One model that is used to evaluate a product's package is the view model: visibility, information, emotion, and workability. Visibility refers to the package's ability to stand out among competing products on the store shelf. Information is the type and amount of information included on the package. Some packages try to stimulate an emotional response to influence buyers. Finally, all product packages perform the basic function of protecting and dispensing the product. Select two competing brands in a product category and evaluate each brand's packaging on these dimensions. Which brand's packaging is superior? Suggest ways to improve the other brand's packaging.
   (AACSB: Communication; Reflective Thinking)

Focus on Technology

Who would pay $330,000 for a virtual space station? Or $100,000 for an asteroid space resort? How about $99,000 for a virtual bank license? Players of *Entropia Universe*, a massive multiplayer online game (MMOG), did. Those players are making money, and so are the game developers. There's a new business model—called "freemium"—driving the economics of these games. Under this model, users play for free but can purchase virtual goods with real money. Worldwide sales of virtual goods were $2.2 billion in 2009 and are predicted to reach $6 billion by 2013. Most virtual goods are inexpensive—costing about $1—such as the tractor you can buy in *Farmville* or a weapon in *World of Warcraft*. That doesn't seem like much, but when you consider that Zynga's *Frontierville* had 5 million players within one month of launch, we're talking real money!

1. How would you classify virtual goods—a tangible good, an experience, or a service? Discuss the technological factors enabling the growth of virtual goods. (AACSB: Communication; Reflective Thinking)
2. How do players purchase virtual goods? Identify three virtual currencies and their value in U.S. dollars. (AACSB: Communication; Reflective Thinking)

Focus on Ethics

"Meet us before you need us"—that's the motto of a cemetery in Denver. Facing decreasing demand as more Americans choose cremation, cemeteries across the country are marketing to the living in hopes that they will become customers in the future. Although funeral homes and cemeteries have long urged customers to pre-purchase funeral services before they are needed, it's the new marketing that is drawing criticism. Some activities are low-key, such as poetry workshops, art shows, and nature walks, but some are downright lively. One cemetery staged a fireworks show and skydiving. Other festivities include concerts, outdoor movies, and the employment of clowns for entertainment. Cemetery directors pine for the old days when, more than a century ago, cemeteries were a place for social gatherings where families visited and picnicked near a loved one's grave. Although many of the new activities are staged in the evening, some occur during the day, and directors must therefore use discretion to avoid interrupting a funeral.

1. What types of products are burial plots and pre-purchased funeral services? Explain. (AACSB: Communication; Reflective Thinking)
2. Are these marketing activities appropriate for this product? (AACSB: Communication; Ethical Reasoning)

Marketing & the Economy

Batteries Plus

A retail store that sells only batteries? That might sound like a surefire product flop in any economy. But weak economic conditions during and following the Great Recession have given a major jolt to Batteries Plus, the nation's first and largest all-battery franchise operation. Same-store sales are up a whopping 20 percent year over year. What is the secret to this chain's success? Demand for its products and services comes from products that retain high consumption patterns regardless of economic conditions. Specifically, no matter what the economy, people and businesses alike still use laptops, MP3 players, digital cameras, mobile phones, camcorders, and even vehicles. And all these necessary items need battery power. In fact, as people hold onto their devices longer instead of replacing them, that's all the better for Batteries Plus. As older batteries lose their ability to hold a charge, consumers head to Batteries Plus for replacements. This dynamic has made Batteries Plus one of the top franchise opportunities in the United States.

People may cut back on luxuries, but the demand for batteries is here to stay.

1. Based on derived demand principles—as in the nature of demand for Batteries Plus market offering—what other businesses should do well in a weak economy?
2. If Batteries Plus does nothing, it still does well in an economic downturn. What recommendations would you make to Batteries Plus to take even better advantage of such conditions and position itself for an economic upturn?

Marketing by the Numbers

What is a brand's worth? It depends on who is measuring it. For example, in 2009, Google was valued to be worth $100 billion by one brand valuation company but only $32 billion by another. Although this variation is extreme, it is not uncommon to find valuations of the same brand differing by $20 to $30 billion. Interbrand and BrandZ publish global brand value rankings each year, but a comparison of these two companies' 2009 rankings reveals an overlap of only six of the top 10 brands.

1. Compare and contrast the methodologies used by Interbrand (www.interbrand.com) and BrandZ (www.brandz.com) to determine brand value. Explain why there is a discrepancy in the rankings from these two companies. (AACSB: Communication; Reflective Thinking; Analytical Reasoning)
2. In 2008, BrandZ ranked Toyota the number one brand of automobiles, valuing the brand at more than $35 billion. In 2010, however, it valued the Toyota brand under $22 billion. Discuss some of the reasons for the drop in Toyota's brand value. (AACSB: Communication; Reflective Thinking)

Video Case

General Mills—GoGurt

General Mills makes a lot of food. As the sixth-largest food company in the world, it sold almost $15 billion worth of packaged food last year. In the United States alone, General Mills markets more than 100 leading brands, such as Cheerios, Betty Crocker, Pillsbury, and Green Giant. With all this experience in managing brands, it has an advantage when it comes to building equity in brands.

Such is the case of GoGurt. The GoGurt video illustrates how General Mills virtually created the category of portable yogurt. But as competitive pressures mounted and dipped into GoGurt's market share, the brand faced many challenges. GoGurt managers needed to apply many branding and brand management concepts to turn GoGurt around and re-establish it as the dominant market leader. After viewing the video featuring GoGurt, answer the following questions about the company.

1. GoGurt is the pioneer brand in its category. Is that an advantage or a disadvantage?
2. Discuss brand equity as it relates to GoGurt.
3. How did the managers of GoGurt apply principles of branding to confront the challenges that the brand faced?

Company Case

Garnier and Revlon: In Need of a Makeover

In 2014, L'Oréal, the world's largest cosmetics company, announced that it is pulling its Garnier brand out of China. Earlier that year, U.S.-based Revlon said that would be exiting the mainland market after almost two decades, having incurred $22 million in expenses. This exit came as a surprise given China's cosmetic industry's impressive top line numbers. The Chinese market is the third largest globally, following North America and Japan. In China, L'Oréal is the second largest beauty and skin care company, with Procter & Gamble at No. 1. The cosmetics market has more than doubled between 2008 and 2012, with a market value of $22.8 billion. Though sales did dampen in 2013, the growth rate is still in the healthy double digits with approximately $23 billion in market sales.

Glossy Beginnings

In 1996, after the Chinese government had relaxed the norms governing foreign investment, the French cosmetics giant entered the mainland market and gained popularity with its subsidiary L'Oréal China. Egged on by their initial success, L'Oréal brought other international brands into the market in order to get a bigger market share. Garnier is one of nine brands that L'Oréal operates in China, and was introduced in the market in 2006 as a mass–marketed cosmetic company with low-prices in comparison to L'Oréal's standard higher-priced skincare brands like L'Oréal Paris and Lancôme.

Recently, L'Oréal's products accounted for about 17 percent or $2.04 billion of China's total cosmetics industry. However, Garnier, which produces hair and skin care products, accounted for a mere 1 percent of L'Oréal's China sales. The company's like-for-like growth reached 6.5 percent in Asia (excluding Japan), while China accounts for only 2 percent of Revlon's total sales. For Revlon, their reach—having entered only 50 of the 160 cities across China—and overall marketing may have worked against them in the market. The exit plan of both these companies illustrates the difficulties that foreign companies are facing in entering the Chinese market.

Beauty is Not Just Skin Deep

Despite their obsession with cosmetics, the Chinese consumers do not buy just any foreign brand that is introduced to the market. With reports indicating that consumers in China are more receptive to online shopping and becoming savvier when it comes to product quality, they are not willing to pay a premium just because the product bears a Western brand. This is also indicative of a decline in sales growth from brick-and-mortar stores as digital penetration continues to increase, which stands at around 6 percent across all cities in China.

The Chinese L'Oréal strategy did not produce the desired outcomes leading the company to start losing sales and it saw a decline in market awareness. Companies like L'Oréal face quite a bit of competition from local players. A weak understanding of the Chinese consumer tastes has also worked against big international brands. Local brands have been able to offer cosmetic products that make use of traditional Chinese practices—medicinal and herbal. Working such small but important facets into their businesses has given domestic players an edge over the foreign companies. Due to the competition and rapid growth of domestic products and labels in mass-market cosmetic space, L'Oréal's Garnier brand bowed out of the Chinese hair care market.

In China, Revlon had not been able to successfully distinguish its luxury products from the mass-market cosmetics. The company sold its products at both high-end makeup stores as well as mid-tier retailers such as local supermarkets and community stores. Without distinct product differentiation, Revlon lost a chunk of their market share because to consumers who wanted a luxury product, being sold to by mid-tier retailers is suggestive that the brand is not of high quality. On the other hand, its high price point made average consumers pass it over. Another sore point was that Revlon did not introduce products for the Chinese market. Instead, all its products were foreign.

Competition is also growing from local and South Korean brands in the mass market segment. Local cosmetics companies, such as Peh Chao Lin and Herborist, offer products at lower price points than Garnier and Revlon. Their sales distribution network has also improved vastly. Chinese consumers see local brands as sophisticated products that are available at lower prices, thus, more appealing. Even Sasa, Hong Kong's discount cosmetic company, is not performing well in China.

Apart from the local business competition, the health scares in China that include those stemming from tainted cosmetics have made Chinese consumers wary of what they buy. They believe that premium-priced products are safer than cheaper ones. There is also the belief that using any one cosmetic brand too long is bad for their skin. This belief has led many companies to launch more brands and new products, making the landscape even more competitive.

This highlights the fact that foreign brands have to work harder to be able to meet the demands of a market with higher consumer expectations.

Beauty From Within: An Inside Player

While L'Oréal is still considered one of the market leaders in China's beauty and cosmetic industry, to strengthen their expansion plans in the Asian stronghold

and retain their market share, L'Oréal seems to be employing an 'acquire-to-grow' strategy. In 2014, one of L'Oréal's major acquisitions was local brand Magic Holdings International Ltd. for $843 million, which will not only give L'Oréal China's biggest facial mask brand but also a way into consumer preferences—Magic includes products that sell MG-branded cosmetics like masks that contain snail essence. Kiehl's, another L'Oréal brand, is a niche brand marketed with a positioning as a natural product, has seen impressive sales. Another brand that L'Oréal carries is Maybelline, a makeup than skincare brand, and holds the largest market share among makeup brands in China.

As another strategic move to make the brand more appealing to the mass, L'Oréal's China division said that they will cut the "price of most of our imported products". While consumers in China often pay more for luxury goods, some companies will charge them a higher price for the same commodity. Most of L'Oréal's luxury brands, apart from Yue Sai (which was acquired by L'Oréal in 2004), are imported.

L'Oréal has also set up a Research and Innovation Centre in Shanghai and manufacturing centers in other locations to produce a bulk of their mass brands.

Questions for Discussion

1. Although Garnier and Revlon pulled out of China, what differences in positioning do you think warrant them leaving the market?
2. Explain what you think should be L'Oréal's next step.
3. Under what conditions do you think Revlon and Garnier should enter the Chinese market again?

Sources

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Objective Outline

OBJECTIVE 1

Explain how companies find and develop new-product ideas.

New-Product Development Strategy (286)

OBJECTIVE 2

List and define the steps in the new-product development process and the major considerations in managing this process.

The New-Product Development Process (286–296)

Managing New-Product Development (296–299)

OBJECTIVE 3

Describe the stages of the product life cycle and how marketing strategies change during a product's life cycle.

Product Life-Cycle Strategies (299–307)

OBJECTIVE 4

Discuss two additional product issues: socially responsible product decisions and international product and services marketing.

Additional Product and Service Considerations (307–309)

Chapter 9

New-Product Development and Product Life-Cycle Strategies

Previewing the Concepts

In the previous chapter, you learned how marketers manage individual brands and entire product mixes. In this chapter, we'll look into two additional product topics: developing new products and managing products through their life cycles. The first part of this chapter lays out a process for finding and growing successful new products. In the second part of the chapter, we will discuss the product life cycle. Finally, we'll look at social responsibility in product decisions and international product and services marketing.

For a start, consider BreadTalk. This Singaporean bakery has been successful not only in Singapore but also in Malaysia and China.

BreadTalk

Founded in 2000, BreadTalk is Singapore's largest boutique bakery chain with over 500 bakeries in 15 countries, including Singapore, China, Indonesia, Malaysia, the Philippines, and Thailand.

The brainchild of George Quek, BreadTalk prides itself in transforming the bakery-landscape in Singapore. Before BreadTalk, during a typical breakfast Singaporeans would either have sliced bread with local-flavored spreads, such as coconut-based *kaya*, or pick from a wide range of inexpensive local food items, like *nasi lemak* (rice with fried fish and omelette) or *bak chor mee* (noodles with pork). BreadTalk has revolutionized this eating culture by getting Singaporeans to enjoy eating bread.

BreadTalk owes part of its success to innovation, both in food as well as retail design and product development. Product development is a strategy that has helped BreadTalk sustain in a market that sees constant turnovers and shorter product life-cycles. It keeps producing and introducing new items to keep its position in the market and stop competitors from overtaking and winning over customers. "BreadTalk

> BreadTalk has been studied and emulated by its competitors. Our biggest challenge... is to innovate and improve the successful formula that we have created.

has been studied and emulated by its competitors. Our biggest challenge . . . is to innovate and improve the successful formula that we have created," says Quek. It was the first company to introduce specialty themed breads and buns to Asia, adapting the doughy-delight to local tastes. Its innovative process didn't just stop there. The company used brand naming to revolutionize its products from those of its competitors. Every bread had a unique name and is a conversation piece for consumers—Crouching Tiger, Hidden Bacon; Mount Fuji; Moshi Mushroom; and Flosss. Though the Flosss Bun remains its iconic product, around 70 percent of its product line-up has been phased out. Instead, its culinary approach is to constantly introduce a wide variety of ingredients and techniques to customers.

Sensing the trend towards healthy eating, BreadTalk has introduced Chia Seed Toast, Soya Toast, and Pumpkin Toast. Prior to the inaugural Youth Olympic Games in Singapore, BreadTalk launched their versions of buns to commemorate this occasion. A similar strategy was employed during the U.S. Presidential elections—BreadTalk introduced Obunma, a bun with tomatoes, ham, and eggs. By constantly reviewing its product portfolio, BreadTalk remains a step ahead of its competition and stays fresh in consumers' mind. The Euro bread series was one of the 50 new products it recently introduced to the market. Developed with input from international bakery consultants in its Research & Development department, the Euro bread series has the taste and quality of European breads but incorporates a range of Asian flavors including black sesame, spinach, and sweet potato, thus, catering to two markets at once.

Innovation is also extended to its retail design. According to Quek, "BreadTalk is not just about making tasty bread and selling them. Our stores are designed in the vein of a fashion boutique . . . This was unprecedented in the market." The retail experience for the consumer starts with each store. It has undergone at

least four major changes. In its first phase, the bakery has sleek, clean lines with full glass open kitchens so that consumers can see what is being baked. The display tops are made of stainless steel. This design not only highlights the products of the bakery, but lends an atmosphere of openness and honesty to its customers. The bakery's open window theme also allows consumers to get a glimpse of the baking process, allowing them to interact with the bakers, and become a part of the baking process. This gives each consumer a personal connect to the bakery. In the second phase, bronze stainless steel is used to convey an understated elegance. In the third phase, the food displays are framed with diamond-cut surface so that the bakery creation was presented in jewelry casings. The current phase has its bakeries with a rustic feel. The décor uses natural complements and has a back-to-nature feel to the design.

BreadTalk has faced a few issues with its marketing strategies, especially when it comes to market segmentation. To get its segmenting right, BreadTalk has focused on four areas—diversification, market development, market penetration, and product development. It has developed over 150 different varieties of bread, which sets it apart from its competitors like Gardenia, and helps it sustain a strong marketing strategy. To make this strategy effective, BreadTalk picks the right locations, like bus terminals, Mass Rapid Transit stations, departmental stores, and supermarkets. This helps it to attract the right customers and keep its consumer traffic flow high. BreadTalk offers new baked products every four months with discounts and promotional tactics to ensure its customers are never bored. Along with these elements, BreadTalk offers its products in two price ranges—the affordable price range to compete with local competitors and win the loyalty of its customers, and the higher price range to ensure customers still believe in the quality of products and services offered by BreadTalk.

BreadTalk's revenues speak of the public's appreciation of it and their demand for more. In 2014, revenue for BreadTalk's Bakery Division increased 8.4 percent to $294.5 million (Singapore dollars) due to improved contributions from all markets. With this success, it opened 80 new outlets, entering new markets like Qatar, Saudi Arabia, and Cambodia. Whether it be product offerings or store designs—BreadTalk keeps in touch with consumer tastes and preferences, evolving their product development and innovation, to create products that are always fresh out of the oven. In 2014, it launched a new store concept with the opening of its 100th Toast Box outlet globally. Toast Box is a first-of-its-kind takeaway bakery corner that has a nostalgic selection of about 30 bakery items, including old-time favorites such as *Po Luo Char Siew* Bun, Salted Egg Bun and Lava Egg Tarts. These items were complements to its sit-down café. BreadTalk ensures consistency and quality of its coffee across all outlets by setting up a central Roasting Lab at the BreadTalk IHQ. This Lab guarantees that all coffee beans are sustainably sourced before undergoing a roasting process, and then sent to each Toast Box outlet, offering a distinctive and consistent flavor in its signature offering. BreadTalk has also partnered with Disney to present an exclusive bakery collection of Spiderman-themed products in Singapore and China.[1]

As the BreadTalk story suggests, a company must be good at developing and managing new products. Every product seems to go through a life cycle—it is born, goes through several phases, and eventually dies as newer products come along that better serve consumer needs. This product life cycle presents two major challenges:

- First, because all products eventually decline, a firm must be good at developing new products to replace ageing ones (the challenge of *new-product development*).
- Second, the firm must be good at adapting its marketing strategies in the face of changing tastes, technologies, and competition as products pass through life-cycle stages (the challenge of *product life-cycle strategies*).

New-Product Development Strategy

New-product development
The development of original products, product improvements, product modifications, and new brands through the firm's own R&D efforts.

Given the rapid changes in consumer tastes, technology, and competition, companies must develop a steady stream of new products and services. A firm can obtain new products in two ways. One is through *acquisition*—by buying a whole company, a patent, or a license to produce someone else's product. The other is through **new-product development** in the company's own research-and-development department. By *new products* we mean original products, product improvements, product modifications, and new brands that the firm develops through its own research-and-development efforts.

Yet innovation can be very expensive and very risky.

Studies indicate that up to 90 percent of all new consumer products fail. Why do so many new products fail? There are several reasons. Although an idea may be good, the company may overestimate market size. The actual product may be poorly designed. Or it might be incorrectly positioned, launched at the wrong time, priced too high, or poorly advertised. A high-level executive might push for a favorite idea despite poor marketing research findings. Sometimes the costs of product development are higher than expected, and sometimes competitors fight back harder than expected.

Apple introduced several new products in the last decade. The iPhone and iPad are the company's two biggest-selling products. All eyes are on the Apple Watch. Will this new product be its next big seller?

The New-Product Development Process

Companies must develop new products, but the odds weigh heavily against success. To create successful new products, a company must understand its consumers, markets, and competitors and develop products that deliver superior value to customers. It must carry out strong new-product planning and set up a systematic *new-product development process* for finding and growing new products. **Figure 9.1** shows the eight major steps in this process.

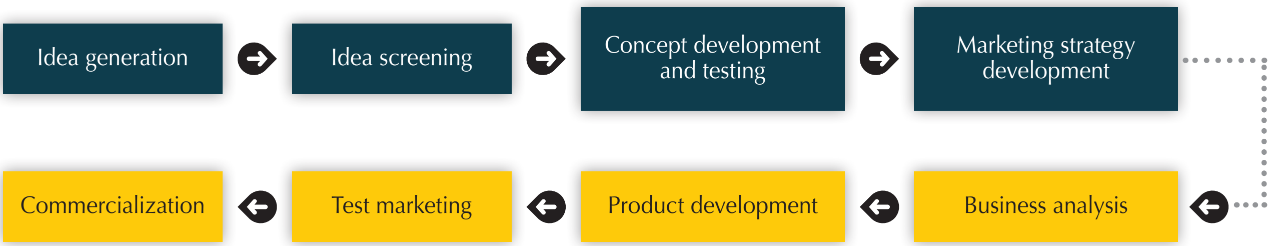


FIGURE 9.1
Major stages in new-product development

Idea Generation

New-product development starts with **idea generation**—the systematic search for new-product ideas. A company typically has to generate many ideas to find a few good ones.

Major sources of new-product ideas include internal sources and external sources such as customers, competitors, distributors and suppliers, and others (see **Figure 9.2**).

Idea generation
The systematic search for new-product ideas.

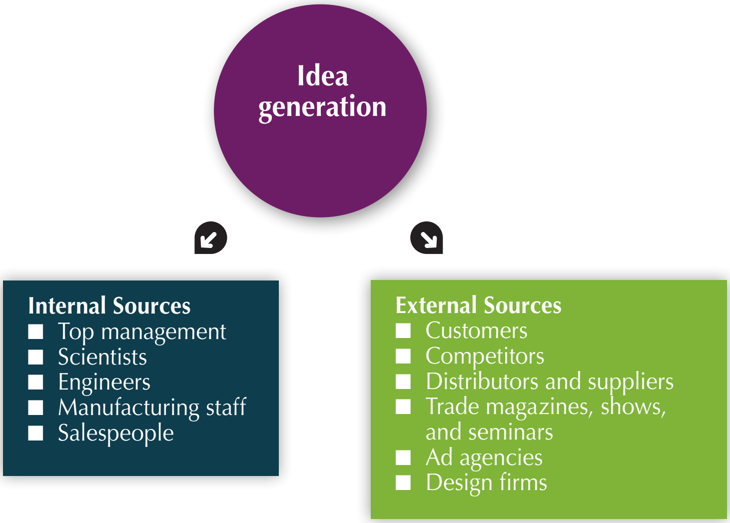


FIGURE 9.2
Sources of new-product ideas

Internal Idea Sources

Using *internal sources*, the company can find new ideas by picking the brains of its executives, scientists, engineers, manufacturing staff, and salespeople. Some companies have developed successful "intrapreneurial" programs that encourage employees to think up and develop new-product ideas.

Samsung has a special center to encourage and support new-product innovation internally—its Value Innovation Program (VIP) Center in Suwon, South Korea. The VIP Center is the ultimate round-the-clock idea factory in which company researchers, engineers, and designers mingle to come up with new-product ideas and processes. The by-invitation-only center features workrooms, dorm rooms, training rooms, a kitchen, and a basement filled with games, a gym, and a sauna. Almost every week, the center announces a "world's first" or "world's largest" innovation. Recent ideas sprouting from the VIP Center include a 102-inch plasma HDTV and a process to reduce material costs on a multifunction printer by 30 percent. The center has helped Samsung, once known as the maker of cheap knock-off products, become one of the world's most innovative and profitable consumer electronics companies.[2]

In a fast-moving and competitive environment, it is "everybody's business to come up with great ideas." Google's Innovation Time-Off program has resulted in blockbuster product ideas such as Gmail and Ad Sense and Google News. Facebook, Twitter, and LinkedIn have "hackathons" that encourage employees to take time off to develop new ideas. LinkedIn's InCubator program allow employees to pitch new ideas. If approved, they get up to 90 days away from regular work to develop the idea into reality.

Internal idea source – LinkedIn has "hackdays" and the InCubator program that allow employees to take time off to develop ideas that will benefit the company.

External Idea Sources

Good new-product ideas also come from *customers*. The company can analyze customer questions and complaints to find new products that better solve consumer problems. Or company engineers or salespeople can meet with and work alongside customers to get suggestions and ideas. LEGO did just that when it invited 250 LEGO train-set enthusiasts to visit its New York office to assess new designs. The group gave LEGO lots of new ideas, and the company put them to good use. "We literally produced what they told us to produce," says a LEGO executive. The result was the "Santa Fe Super Chief" set. Some 10,000 units were sold in less than two weeks with no additional marketing.[3]

❯ At UNIQLO, new clothing ideas are generated in part from opinions and requests from customers.

Japanese clothing chain, UNIQLO, has a customer center that receives more than 70,000 opinions and requests from customers annually via telephone, postcard, and email. These are forwarded to the appropriate departments to help improve products, stores, and service.

Consumers often create new products and uses on their own, and companies can benefit by putting them on the market. For example, Haier, China's major appliance company, found that many of its customers in rural communities used their washing machines to also clean vegetables. Such use clogged the machines, resulting in a deluge of complaints. Given customers' unconventional usage of its washing machines, Haier redesigned the draining mechanism so that the machines could also wash vegetables without breaking down.

However, companies must be careful not to rely too heavily on customer input when developing new products. For some products, especially highly technical ones, customers may not know what they need.

Beyond customers, companies can tap several other external sources. For example, *competitors* can be a good source of new-product ideas. Companies watch competitors' ads to get clues about their new products. They buy competing new products, take them apart to see how they work, analyze their sales, and decide whether they should bring out a new product of their own.

Distributors and suppliers can also contribute good new-product ideas. Distributors are close to the market and can pass along information about consumer problems and new-product possibilities. Suppliers can tell the company about new concepts, techniques, and materials that can be used to develop new products. Other idea sources include trade magazines, shows and seminars, government agencies, new-product consultants, advertising agencies, marketing research firms, university and commercial laboratories, and inventors.

Some companies seek the help of external design firms for new-product ideas and design. For example, a design company helped Tupperware find a new-product solution to a common customer problem—organizing that closet full of randomly stacked plastic storage containers and matching the lids with the bases. From idea generation to final prototypes, the design company developed Tupperware's GOFLEX! series, featuring flexible containers that can be collapsed, stacked, and stored flat with the lid attached. The new product received several design awards.[4]

❯ Tupperware's GOFLEX! series of collapsible containers was designed to solve the problem of storage and matching covers to the containers.

Crowdsourcing

Companies are developing *crowdsourcing* or *open-innovation* new-product idea programs. **Crowdsourcing** throws innovation doors wide open, inviting broad communities of people—customers, employees, independent scientists and researchers, and even the public at large—into the new-product innovation process. Tapping into a breadth of sources—both inside and outside the company—can produce unexpected and powerful new ideas (see **Real Marketing 9.1**).

Crowdsourcing can produce a flood of innovative ideas—some good and some bad. Truly innovative companies do not rely on one source or another for new-product ideas. Instead, they create "extensive networks for capturing inspiration from every possible source, from employees at every walk of the company to customers to other innovators and myriad points beyond."[5]

Crowdsourcing
Inviting broad communities of people—customers, employees, independent scientists and researchers, and even the public at large—into the new-product innovation process.

Idea Screening

The purpose of idea generation is to create a large number of ideas. The purpose of the succeeding stages is to *reduce* that number. The first idea-reducing stage is **idea screening**, which helps spot good ideas and drop poor ones as soon as possible. Product development costs rise greatly in later stages, so the company wants to go ahead only with the product ideas that will turn into profitable products.

Idea screening
Screening new-product ideas to spot good ideas and to drop poor ones as soon as possible.

Many companies require their executives to write up new-product ideas on a standard form that can be reviewed by a new-product committee. The write-up describes the product, the target market, and the competition. It makes some estimates of market size, product price, development time and costs, manufacturing costs, and rate of return. The committee then evaluates the idea against a set of general criteria.

One marketing expert proposes an R-W-W ("real, win, worth doing") new-product screening framework that asks three questions. First, *Is it real?* Is there a real need and desire for the product and will customers buy it? Is there a clear product concept and will such a product satisfy the market? Second, *Can we win?* Does the product offer a sustainable competitive advantage? Does the company have the resources to make such a product a success? Finally, *Is it worth doing?* Does the product fit the company's overall growth strategy? Does it offer sufficient profit potential? The company should be able to answer yes to all three R-W-W questions before developing the new-product idea further.[6]

Concept Development and Testing

An attractive idea must be developed into a **product concept**. It is important to distinguish between a product idea, a product concept, and a product image. A *product idea* is an idea for a possible product that the company can see itself offering to the market. A *product concept* is a detailed version of the idea stated in meaningful consumer terms. A *product image* is the way consumers perceive an actual or potential product.

Product concept
A detailed version of the new-product idea stated in meaningful consumer terms.

Concept Development

Suppose a car manufacturer has developed a practical battery-powered all-electric car. Its initial prototype is a sleek, sporty convertible that sells for about $100,000.[7] However, in the near future, it plans to introduce more affordable, mass-market models that will compete with today's hybrid-powered cars. This 100 percent electric car will accelerate from 0 to 100 km/h in four seconds, travel over 400 kilometers on a single charge, recharge from a normal electrical outlet, and cost only a few cents per kilometer to power.

Real Marketing 9.1

Crowdsourcing:
Throwing the Innovation Doors Wide Open

Today, crowdsourcing is big business. You're probably most familiar with consumer-generated marketing efforts in which companies invite customers to help them create new advertising or product ideas. PepsiCo's Frito-Lay division is well known for doing this. For example, its annual Doritos Crash the Super Bowl ad competition generates awardwinning, consumer-produced Super Bowl ads every year. And its Frito-Lay "Do Us a Flavor" competition invites consumers to submit and vote on new flavors for Lays potato chips. These highly successful crowdsourcing campaigns generate heaps of customer involvement and buzz. Its "Do Us a Flavor" contest alone produced more than 4 million new flavor ideas.

But today's crowdsourcing is about much more than just clever consumer contests that build buzz. Companies ranging from giants like P&G, Under Armor, and Samsung to manufacturing start-ups like Quirky are throwing the innovation doors wide open, inviting broad communities of people—customers, employees, independent scientists and researchers, and even the public at large—into the new product innovation process. Consider the following examples.

Procter & Gamble

P&G has long set the gold standard for breakthrough innovation and new product development in its industry. P&G's Tide detergent was the first synthetic laundry detergent for automatic washing machines, its Pampers brand was the first successful disposable diaper, and P&G's Febreze was the first air freshener that eliminated odors rather than just covering them up. Such breakthrough innovations have been pivotal in P&G's incredible growth and success.

Until recently, most of P&G's innovations came from within its own R&D labs. P&G employs more than 8,000 R&D researchers in 26 facilities around the globe, some of the best research talent in the world. But P&G's research labs alone simply can't provide the quantity of innovation required to meet the growth needs of the $84 billion company.

So P&G began inviting outside partners to help develop new products and technologies. It launched P&G Connect + Develop, a major crowdsourcing program that invites entrepreneurs, scientists, engineers, and other researchers—even consumers themselves—to submit ideas for new technologies, product designs, packaging, marketing models, research methods, engineering, or promotion—anything that has the potential to create better products that will help P&G meet its goal of "improving more consumers' lives."

P&G isn't looking to replace its 8,000 researchers; it wants to leverage them better. Through careful crowdsourcing, it could extend its inside people with millions of brilliant minds outside. Through Connect + Develop, says the company, "Together, we can do more than either of us could do alone."

Today, thanks to Connect + Develop, P&G has a truly global open-innovation network. More than 50 percent of its innovations involve some kind of external partner. So far, the program has resulted in more than 2,000 successful agreements. The long list of successful Connect + Develop products includes, among others, Tide Pods, Tide Total Care, Olay Regenerist, Swiffer Dusters, Glad ForceFlex Bags, CoverGirl Eyewear, the Oral B Pulsonic toothbrush, and Mr. Clean Magic Eraser. P&G Connect + Develop is "at the heart of how P&G innovates."

Under Armour

Sports apparel maker Under Armour knows that no matter how many top-notch developers it has inside, sometimes the only way to produce good outside-the-box ideas is by going outside the company. So Under Armour sponsors a semi-annual Future Show Innovation Challenge, a competition that is part crowdsourcing and part new product American Idol but all business in its quest to find The Next Big Thing. The Future Show invites inventors from around the nation to submit new product ideas. From thousands of entries, an Under Armour team culls 12 finalists, who go before a panel of seven judges to pitch their products in a splashy, Shark Tank-like reality TV setting. The winner earns $25,000 and a contract to work with Under Armour to help develop the winning product.

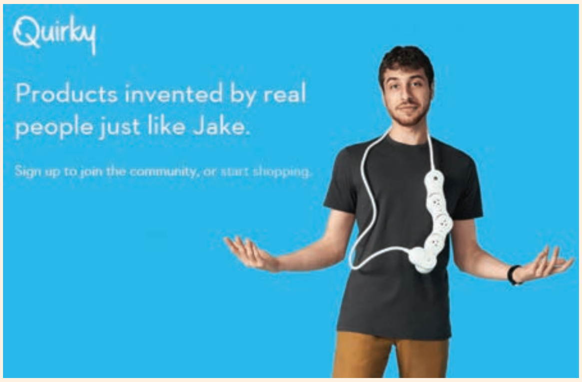
Under Armour founder and CEO Kevin Plank started the company with his innovative idea for a shirt that pulled moisture away from the body to keep athletes dry. Since then, the now-$2-billion-a-year company has built its reputation on innovative but pricy sports gear. The Future Show is one more way to keep Under Armour on the cutting edge of innovation. "We don't have all the good ideas," says Plank. The goal of the Future Show Challenge is to "cajole top innovators to come to Under Armour first with gee-whizzers."

The first winner, and Plank's favorite so far, is a made-for-athletes zipper—the UA MagZip— that can be zipped easily with only one hand. Under Armour's internal R&D team had been trying to develop a better zipper for two years but "we couldn't get it to work," says the company's innovation chief. The crowdsourced zipper will soon show up in stores on 400,000 Under Armour jackets and could eventually be used in all Under Armour outerwear. That simple zipper is just one of dozens of creative new product ideas from Future Show. But by itself, it makes the entire crowdsourcing effort worthwhile.

Quirky

It's not just big companies such as P&G and Under Armour that use crowdsourcing. Quirky is a promising $50-million company built solely around crowdsourcing. Based on the notion that ordinary people have extraordinary ideas, Quirky manufactures products from everyday inventors. It taps into an online community of 500,000 members who submit inventive new product ideas, in the form of "a napkin sketch, a sentence, or a fully baked product." The company receives more than 2,000 ideas a week. The community then votes for its favorites, and each week, in a live Webcast from Quirky's New York headquarters, company executives, industry experts, and community members debate the merits of submitted ideas and select three or four for development.

Quirky then handles all of the difficult design, production, legal, and marketing details in turning chosen ideas into marketable products. Crowdsourcing plays a role throughout, as the Quirky community provides input on everything from design to the product's name, packaging, tagline, and price. Products that make it through development are shipped off to one of five global distribution centers, then to any of more than 35,000 retail locations, including Target, Bed Bath & Beyond, Best Buy, Amazon.com, and even QVC.



Inventors whose ideas become products and people who contribute to improving those products share in royalties based on product sales. Of the more than 100 products that Quirky has put on store shelves in its brief history, not one has lost money. The company's top seller to date is a clever pivoting power strip called Pivot Power. Sales of the Pivot Power are approaching a million units, and the product promises to make its 24-year-old amateur inventor more than $2 million by the end of the year.

The P&Gs, PepsiCos, and Under Armours of the world operate on a scale that dwarfs the Quirky. Yet, small Quirky perhaps best illustrates the raw power of crowdsourcing, the democratization of product development in its purest form. As one Target representative concludes, "Nobody is innovating at the pace that Quirky is."

Sources

Based on information from Kurt Wagner, "Five Brands That Got Fans to Lend a Hand," Fortune, 24 June 2013, www.money.cnn.com/gallery/leadership/2013/06/24/crowdsourcing-brands.fortune/; Dale Buss, "P&G Enhances Connect + Develop Innovation Pipeline," *BrandChannel,* 13 February 2013, www.brandchannel.com/home/post/2013/02/13/PG-Connect-Develop-Website-021313.aspx; Larry Huston and Nabil Sakkab, "Connect and Develop: Inside Procter & Gamble's New Model for Innovation," *Harvard Business Review,* March 2006, pp. 2–9; Bruce Horovitz, "Under Armour Seeks Ideas for Its Next Big Thing," *USA Today,* 20 October 2013; Josh Dean, "Is This the World's Most Creative Manufacturer?" *Inc.,* October 2013, pp. 95–114; and www.pgconnectdevelop.com and www.quirky.com, accessed September 2014.

Looking ahead, the marketer's task is to develop this new product into alternative product concepts, find out how attractive each concept is to customers, and choose the best one. It might create the following product concepts for the electric car:

Concept 1 An affordably priced mid-size car designed as a second family car to be used around town. The car is ideal for running errands and visiting friends.

Concept 2 A mid-priced sporty compact appealing to young people.

Concept 3 A "green" car appealing to environmentally conscious people who want practical, low-polluting transportation.

Concept 4 A high-end SUV appealing to those who love the space SUVs provide but lament the high fuel consumption.

Concept testing
Testing new-product concepts with a group of target consumers to find out if the concepts have strong consumer appeal.

Concept Testing

Concept testing calls for testing new-product concepts with groups of target consumers. The concepts may be presented to consumers symbolically or physically. The text below describes Concept 3:

> An efficient, fun-to-drive, battery-powered subcompact car that seats four. This 100 percent electric wonder provides practical and reliable transportation with virtually no pollution. It goes up to 45 kilometers per hour and costs a few cents per kilometer to operate. It's a sensible, responsible alternative to today's pollution-producing fuel-guzzlers. It's priced, fully equipped, at $25,000.

For some concept tests, a word description or picture might be sufficient. However, a more concrete and physical presentation of the concept will increase the reliability of the concept test. After being exposed to the concept, consumers may then be asked to react to it by answering questions such as those in **Table 9.1**. The answers to such questions will help the company decide which concept has the strongest appeal. For example, the last question asks about the consumer's intention to buy. Suppose 10 percent of consumers say that they would "definitely" buy, and another 5 percent say "probably." The company could project these figures to the full population in this target group to generate an estimated sales volume. Even then, the estimate is uncertain because people do not always carry out their stated intentions.

TABLE 9.1 Questions for Battery-Powered Electric Car Concept Test

1. Do you understand the concept of a battery-powered electric car?
2. Do you believe the claims about the car's performance?
3. What are the major benefits of the battery-powered electric car compared with a conventional car?
4. What are its advantages compared with a battery-powered electric car?
5. What improvements in the car's features would you suggest?
6. For what uses would you prefer a battery-powered electric car to a conventional car?
7. What would be a reasonable price to charge for the car?
8. Who would be involved in your decision to buy such a car? Who would drive it?
9. Would you buy such a car (definitely, probably, probably not, definitely not)?

Many firms routinely test new-product concepts with consumers before attempting to turn them into actual new products. For example, M&M Mini's, "teeny-tiny" M&Ms sold in a tube container, received a rare A+ concept rating, meaning that consumers thought it was an outstanding concept that they would try and buy.

❯ M&M Mini's received an A+ concept rating from consumers.

Marketing Strategy Development

Suppose Concept 3 for the battery-powered electric car tests best. The next step is **marketing strategy development**, designing an initial marketing strategy for introducing this car to the market.

Marketing strategy development
Designing an initial marketing strategy for a new product based on the product concept.

The *marketing strategy statement* consists of three parts. The first part describes the target market; the planned product positioning; and the sales, market share, and profit goals for the first few years. Thus:

> The target market is that of younger, well-educated, moderate-to-high-income individuals, couples, or small families seeking practical, environmentally responsible transportation. The car will be positioned as more fun to drive and less polluting than today's internal combustion engine or hybrid cars. It is also less restrictive than battery-powered electric cars, which must be recharged regularly. The company will aim to sell 100,000 cars in the first year, at a loss of not more than $15 million. In the second year, the company will aim for sales of 120,000 cars and a profit of $25 million.

The second part of the marketing strategy statement outlines the product's planned price, distribution, and marketing budget for the first year:

> The battery-powered electric car will be offered in three colors—green, white, and blue—and will have optional air-conditioning and power-drive features. It will sell at a retail price of $25,000—with 15 percent off the list price to dealers. Dealers who sell more than 10 cars per month will get an additional discount of 5 percent on each car sold that month. An advertising budget of $50 million will be split 50-50 between a national media campaign and local advertising. Advertising will emphasize the car's fun spirit and low emissions. During the first year, $100,000 will be spent on marketing research to find out who is buying the car and their satisfaction levels.

The third part of the marketing strategy statement describes the planned long-run sales, profit goals, and marketing mix strategy:

> We intend to capture a 3 percent share of the total auto market in the long run, and realize an after-tax return on investment of 15 percent. To achieve this, product quality will start high and be improved over time. Prices will be raised in the second and third years if competition permits. The total advertising budget will be raised each year by about 10 percent. Marketing research will be reduced to $60,000 per year after the first year.

Business Analysis

Business analysis
A review of the sales, costs, and profit projections for a new product to find out whether these factors satisfy the company's objectives.

Once management has decided on its product concept and marketing strategy, it can evaluate the business attractiveness of the proposal. **Business analysis** involves a review of the sales, costs, and profit projections for a new product to find out whether they satisfy the company's objectives. If they do, the product can move to the product development stage.

To estimate sales, the company might look at the sales history of similar products and conduct surveys of market opinion. It can then estimate minimum and maximum sales to assess the range of risk. After preparing the sales forecast, management can estimate the expected costs and profits for the product, including marketing, R&D, operations, accounting, and finance costs. The company then uses the sales and costs figures to analyze the new product's financial attractiveness.

Estimating sales – Companies look at the sales history of similar products and conduct surveys of market opinion.

Product Development

For many new products, a product exists only as a word descriptions, drawings, or crude mock-ups. If the product concept passes the business test, it moves into **product development**. The physical product is then created. The product development step, however, calls for a large jump in investment. It will show whether the product idea can be turned into a workable product.

The R&D department will develop and test one or more physical versions of the product concept. R&D hopes to design a prototype that will satisfy and excite consumers and that can be produced quickly at budgeted costs.

Product development
Developing the product concept into a physical product to ensure that the product idea can be turned into a workable market offering.

Louis Vuitton – Behind a locked door in the basement of Louis Vuitton's elegant Paris headquarters, a mechanical arm hoists a brown-and-tan handbag a half-meter off the floor—then drops it. The bag, loaded with a 3.5-kilogram weight, will be lifted and dropped, over and over again, for four days. This is Vuitton's test laboratory, a high-tech "torture chamber" for its products. Another piece of lab equipment bombards handbags with ultraviolet rays to test resistance to fading. Still another tests zippers by tugging them open and shutting them 5,000 times. There's even a mechanized mannequin hand, with a Vuitton charm bracelet around its wrist, being shaken vigorously to make sure none of the charms fall off.

Louis Vuitton's handbags and accessories are tested rigorously to ensure product quality and safety.

Often, products undergo rigorous tests to make sure that they perform safely and effectively or that consumers will find value in them. Here is an example of such product tests:[8]

> A new product must have the required functional features and also convey the intended psychological characteristics. The battery-powered electric car, for example, should strike consumers as being well-built, comfortable, and safe. Management must learn what it is that makes consumers decide if a car is well-built or not. To some consumers, this means that the car has "solid-sounding" doors. To others, it means that the car is able to withstand a heavy impact in crash tests. Consumer tests are conducted in which consumers test-drive the car and rate its attributes.

Test Marketing

If the product passes concept and product tests, the next step is **test marketing**, the stage at which the product and its proposed marketing program are introduced into more realistic market settings. Test marketing gives the marketer experience with marketing the product before going to the great expense of full introduction. It lets the company test the product and its entire marketing program—positioning strategy, advertising, distribution, pricing, branding and packaging, and budget levels.

Test marketing
The stage of new-product development in which the product and its proposed marketing program are tested in more realistic market settings.

The amount of test marketing needed varies with each new product. Test marketing costs can be high, and it takes time, perhaps allowing competitors to gain advantages. When the costs of developing and introducing the product are low, or when management is already confident about the new product, the company may do little or no test marketing. Companies often do not test-market simple line extensions or copies of successful competitor products. However, when introducing a new product requires a big investment, or when management is not sure of the product or marketing program, a company may do more test marketing.

As an alternative to extensive and costly standard test markets, companies can use controlled test markets or simulated test markets. *Controlled test marketing systems* such as Nielsen's Scantrack track individual consumer behavior for new products. A panel of shoppers reports all of their purchases by showing an identification card when checking-out in participating stores and by using a handheld scanner at home to record purchases at non-participating stores. Detailed scanner information on each consumer's purchases is fed into a central computer, where it is combined with the consumer's demographic and TV viewing information and reported daily. Such panel purchasing data enables in-depth diagnostics not possible with retail point-of-sale data alone, including repeat purchase analysis, buyer demographics, and earlier, more accurate sales forecasts after only 12 to 24 weeks in the market.

Companies can also test new products in *simulated test markets*, in which researchers measure consumer responses to new products and marketing tactics in laboratory stores or simulated shopping environments. Marketers are also using online simulated marketing technologies to reduce the costs of test marketing and speed up the process.

Rather than simply simulating the shopping environment, P&G launched an actual online store that serves as a "learning lab" by which the company can test new products and marketing concepts. The online store lets P&G quickly do real-time testing of marketing tactics—such as e-coupons, cross-selling efforts, and advertising—and learn how they affect consumer buying. The online store is unlikely to boost company revenues or profits much. But P&G is more interested in the data about shoppers and what works for them: new products, product pairings, and packaging options.[9]

Commercialization

Commercialization
Introducing a new product into the market.

Test marketing gives management the information needed to make a final decision about whether to launch the new product. If the company goes ahead with **commercialization**—introducing the new product into the market—it will face high costs. The company may have to build or rent a manufacturing facility. And, in the case of major new consumer packaged goods, it may spend millions of dollars for advertising, sales promotion, and other marketing efforts in the first year.

The company launching a new product must first decide on introduction *timing*. If the car maker's new battery-powered electric car will eat into the sales of the company's other cars, its introduction may be delayed. If the car can be improved further, or if the economy is down, the company may wait until the following year to launch it. However, if competitors are ready to introduce their own battery-powered models, the company may be pushed to introduce the car sooner.

Next, the company must decide *where* to launch the new product—in a single location, a region, the national market, or the international market. Few companies have the confidence, capital, and capacity to launch new products into full national or international distribution. They will develop a planned *market rollout* over time. In particular, small companies may enter attractive cities or regions one at a time. Larger companies, however, may quickly introduce new models into several regions or into the full national market.

Managing New-Product Development

The new-product development process shown in Figure 9.1 highlights the important activities needed to find, develop, and introduce new products. However, new-product development involves more than just going through a set of steps. Companies must take a holistic approach to managing this process. Successful new-product development requires a customer-centered, team-based, and systematic effort.

Customer-Centered New-Product Development

Above all else, new-product development must be customer-centered. When looking for and developing new products, companies often rely too heavily on technical research in their R&D labs. But like everything else in marketing, successful new-product development begins with a thorough understanding of what consumers need and value. **Customer-centered new-product development** focuses on finding new ways to solve customer problems and create more customer-satisfying experiences.

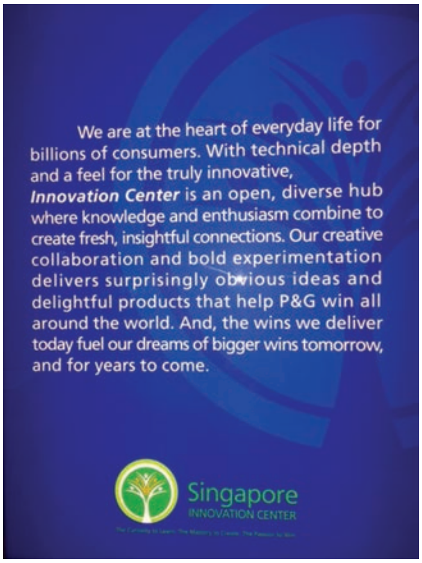
One study found that the most successful new products are ones that are differentiated, solve major customer problems, and offer a compelling customer value proposition. Thus, innovative companies are getting out of the research lab and mingling with customers in the search for new customer value. Consider the following example:

Customer-centered new-product development
New-product development that focuses on finding new ways to solve customer problems and create more customer-satisfying experiences.

Procter & Gamble – While the consumer packaged goods industry's new-product success rate is only about 15 to 20 percent, P&G's success rate is over 50 percent. According to its former CEO, A.G. Lafley, the most important factor in its success is its understanding of what consumers want. In the past, says Lafley, P&G tried to push new products to consumers rather than first understanding their needs. But now, P&G employs an immersion process it calls "Living It," in which researchers go so far as to live with shoppers for several days at a time to envision product ideas based directly on consumer needs. P&Gers also hang out in stores for similar insights, a process they call "Working It." And at its Connect + Develop crowdsourcing site, P&G urges customers to submit their own ideas and suggestions for new products and services, current product design, and packaging. "We figured out how to keep the consumer at the center of all our decisions," says Lafley. "As a result, we don't go far wrong."[10]

❯ P&G has its crowdsourcing site for product initiatives from external innovators.

Thus, customer-centered new-product development begins and ends with solving customer problems. As one expert asks: "What is innovation after all, if not products and services that offer fresh thinking in a way that meets the needs of customers?"[11]



❯ Being customer oriented, P&G set up an innovation center in Singapore to develop products that are more suited for the Asian consumers.

Team-Based New-Product Development

Good new-product development also requires a total-company, cross-functional effort. Some companies organize their new-product development process into the orderly sequence of steps shown in Figure 9.1, starting with idea generation and ending with commercialization. Under this *sequential product development* approach, one company department works individually to complete its stage of the process before passing the new product along to the next department and stage. This orderly, step-by-step process can help bring control to complex and risky projects. But it can also be dangerously slow. In fast-changing, highly competitive markets, such slow-but-sure product development can result in product failures, lost sales and profits, and crumbling market positions.

Team-based new-product development
An approach to developing new products in which various company departments work closely together, overlapping the steps in the product development process to save time and increase effectiveness.

To get their new products to market more quickly, many companies use a **team-based new-product development** approach. Under this approach, company departments work closely together in cross-functional teams, overlapping the steps in the product development process to save time and increase effectiveness. Instead of passing the new product from department to department, the company assembles a team of people from various departments, which stays with the new product from start to finish. Such teams usually include people from the marketing, finance, design, manufacturing, and legal departments, and even supplier and customer companies. In the sequential process, a bottleneck at one phase can seriously slow the entire project. In the simultaneous approach, if one functional area hits snags, it works to resolve them while the team moves on.

The team-based approach does have some limitations. For example, it sometimes creates more organizational tension and confusion than the more orderly sequential approach. However, in rapidly changing industries facing increasingly shorter product life cycles, the rewards of fast and flexible product development far exceed the risks. Companies that combine both a customer-centered approach with team-based new-product development gain a big competitive edge by getting the right new products to market faster.

Systematic New-Product Development

Finally, the new-product development process should be holistic and systematic rather than haphazard. Otherwise, few new ideas will surface, and many good ideas will sputter and die. To avoid these problems, a company can install an *innovation management system* to collect, review, evaluate, and manage new-product ideas.

The company can appoint a respected senior person to be the company's innovation manager. It can set up Web-based idea management software and encourage all company stakeholders—employees, suppliers, distributors, dealers—to become involved in finding and developing new products. It can assign a cross-functional innovation management committee to evaluate proposed new-product ideas and help bring good ideas to market. It can create recognition programs to reward those who contribute the best ideas. Consider Tata:

Tata Consultancy Services – Indian conglomerate Tata uses its consulting arm, Tata Consultancy Services (TCS), to spearhead its new-product development. TCS has 20 labs worldwide and has advised external clients such as British Airways and ABN Amro Bank. It became an in-house consultancy as Tata management wanted to promote intragroup cross-pollination and get more from its R&D budget. Now, TCS shares revenues from the new products and services it and its affiliated Tata companies create. In so doing, the intellectual property rights stay within the conglomerate.[12]

The innovation management system approach yields two favorable outcomes. First, it helps create an innovation-oriented company culture. It shows that top management supports, encourages, and rewards innovation. Second, it will yield a larger number of new-product ideas, among which will be found some especially good ones. The good new ideas will be more systematically developed, producing more new-product successes.

Samsung's entire culture encourages and supports innovation. Every product has to pass the customer "Wow!" test or it goes back to development.

Product Life-Cycle Strategies

After launching the new product, management would want the product to enjoy a long and happy life. Although it does not expect the product to sell forever, the company wants to earn a decent profit to cover all the effort and risk that went into launching it. Management is aware that each product will have a life cycle, although its exact shape and length is not known in advance.

Figure 9.3 shows a typical **product life cycle (PLC)**, the course that a product's sales and profits take over its lifetime. The product life cycle has five distinct stages:

Product life cycle (PLC)
The course of a product's sales and profits over its lifetime. It involves five distinct stages: product development, introduction, growth, maturity, and decline.

1. *Product development* begins when the company finds and develops a new-product idea. During product development, sales are zero and the company's investment costs mount.
2. *Introduction* is a period of slow sales growth as the product is introduced in the market. Profits are non-existent in this stage because of the heavy expenses of product introduction.
3. *Growth* is a period of rapid market acceptance and increasing profits.
4. *Maturity* is a period of slowdown in sales growth because the product has achieved acceptance by most potential buyers. Profits level off or decline because of increased marketing outlays to defend the product against competition.
5. *Decline* is the period when sales fall off and profits drop.

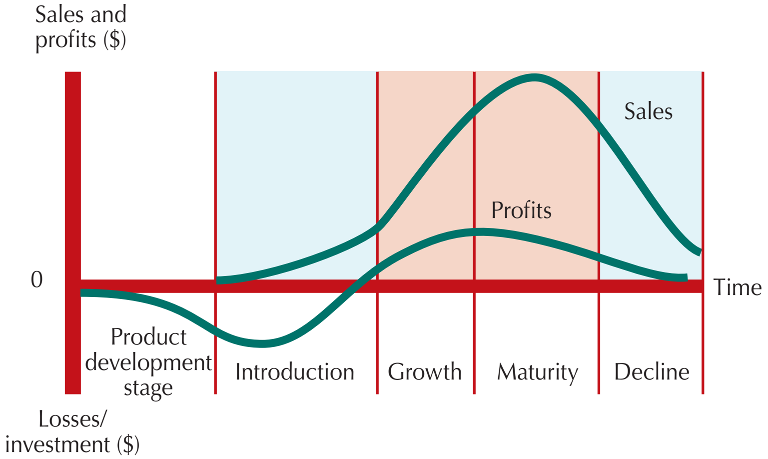


FIGURE 9.3
Sales and profits over the product's life from inception to decline

Not all products follow this product life cycle. Some products are introduced and die quickly; others stay in the mature stage for a long time. Some enter the decline stage and are then cycled back into the growth stage through strong promotion or repositioning. It seems that a well-managed brand could live forever. Venerable brands such as Kikkoman, Coca-Cola, and Gillette are still going strong after more than 100 years.

The PLC concept can describe a *product class* (fuel-powered automobiles), a *product form* (SUVs), or a *brand* (the Toyota Camry). The PLC concept applies differently in each case. Product classes have the longest life cycles—the sales of many product classes stay in the mature stage for a long time. Product forms, in contrast, tend to have the standard PLC shape. Product forms such as "dial telephones" and "cassette tapes" passed through a regular history of introduction, rapid growth, maturity, and decline.

A specific brand's life cycle can change quickly because of changing competitive attacks and responses. For example, although laundry soaps (product class) and powdered detergents (product form) have enjoyed fairly long life cycles, the life cycles of specific brands have tended to be much shorter.

Style
A basic and distinctive mode of expression.

Fashion
A currently accepted or popular style in a given field.

Fad
A temporary period of unusually high sales driven by consumer enthusiasm and immediate product or brand popularity.

The PLC concept also can be applied to what are known as styles, fashions, and fads. Their special life cycles are shown in **Figure 9.4**. A **style** is a basic and distinctive mode of expression. For example, styles appear in homes (colonial, ranch), clothing (formal, casual), and art (surrealist, abstract). Once a style is invented, it may last for generations, passing in and out of vogue. A style has a cycle showing several periods of renewed interest. A **fashion** is a currently accepted or popular style in a given field. For example, the more formal "business attire" look of corporate dress of the 1980s and early 1990s gave way to the "business casual" look of today. Fashions tend to grow slowly, remain popular for a while, and then decline slowly. **Fads** are temporary periods of unusually high sales driven by consumer enthusiasm and immediate product or brand popularity.[13] Fads include the Rubik's Cube and low-carb diets.[14]

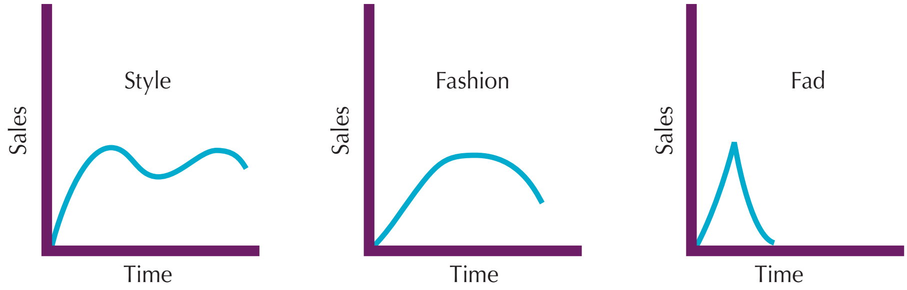


FIGURE 9.4
Styles, fashion, and fads

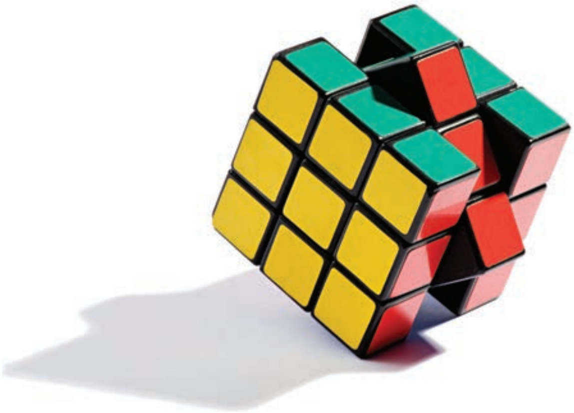
The PLC concept can be applied by marketers as a useful framework for describing how products and markets work. And when used carefully, the PLC concept can help in developing good marketing strategies for different stages of the product life cycle. But using the PLC concept for forecasting product performance or developing marketing strategies presents some practical problems. For example, managers may have trouble identifying which stage of the PLC the product is in or pinpointing when the product moves into the next stage. They may also find it hard to determine the factors that affect the product's movement through the stages.

In practice, it is difficult to forecast the sales level at each PLC stage, the length of each stage, and the shape of the PLC curve. Using the PLC concept to develop marketing strategy also can be difficult because strategy is both a cause and a result of the product's life cycle. The product's current PLC position suggests the best marketing strategies, and the resulting marketing strategies affect product performance in later life-cycle stages.

Moreover, marketers should not blindly push products through the traditional stages of the product life cycle. Instead, marketers often defy the "rules" of the life cycle and position their products in unexpected ways to prolong their life.

We looked at the product development stage of the product life cycle in the first part of the chapter. We now look at strategies for each of the other life-cycle stages.

Table 9.2 summarizes the key characteristics of each stage of the product life cycle. The table also lists the marketing objectives and strategies for each stage.[15]



Fads such as the Rubik's Cube produce temporary periods of unusually high sales as consumers are drawn to the product.

TABLE 9.2 Summary of Product Life-Cycle Characteristics, Objectives, and Strategies

Characteristics	Introduction	Growth	Maturity	Decline
Sales	Low sales	Rapidly rising sales	Peak sales	Declining sales
Costs	High cost per customer	Average cost per customer	Low cost per customer	Low cost per customer
Profits	Negative	Rising profits	High profits	Declining profits
Customers	Innovators	Early adopters	Middle majority	Laggards
Competitors	Few	Growing number	Stable number beginning to decline	Declining number
Marketing Objectives				
	Create product awareness and trial	Maximize market share	Maximize profit while defending market share	Reduce expenditure and milk the brand
Strategies				
Product	Offer a basic product	Offer product extensions, service, warranty	Diversify brand and models	Phase out weak items
Price	Use cost-plus	Price to penetrate market	Price to match or beat competitors	Cut price
Distribution	Build selective distribution	Build intensive distribution	Build more intensive distribution	Go selective: phase out unprofitable outlets
Advertising	Build product awareness among early adopters and dealers	Build awareness and interest in the mass market	Stress brand differences and benefits	Reduce to level needed to retain hardcore loyals
Sales Promotion	Use heavy sales promotion to entice trial	Reduce to take advantage of heavy consumer demand	Increase to encourage brand switching	Reduce to minimal level

Source: Philip Kotler and Kevin Lane Keller, *Marketing Management*, 15th ed.

Introduction Stage

Introduction stage
The product life-cycle stage in which the new product is first distributed and made available for purchase.

The **introduction stage** starts when the new product is first launched. Introduction takes time, and sales growth is apt to be slow. Well-known products such as instant coffee lingered for many years before they entered a stage of rapid growth.

In this stage, as compared to other stages, profits are negative or low because of the low sales and high distribution and promotion expenses. Lots of money is needed to attract distributors and build their inventories. Promotion spending is relatively high to inform consumers of the new product and get them to try it. Because the market is not generally ready for product refinements at this stage, the company and its few competitors produce basic versions of the product. These firms focus their selling on those who are the most ready to buy.

A company, especially the *market pioneer*, must choose a launch strategy consistent with the intended product positioning. It should realize that the initial strategy is just the first step in a bigger marketing plan for the product's entire life cycle. If the pioneer chooses its launch strategy to make a "killing," it may be sacrificing long-run revenue for short-run gain. As the pioneer moves through later stages of the life cycle, it must continuously formulate new pricing, promotion, and other marketing strategies. It has the best chance of building and retaining market leadership if it plays its cards correctly from the start.

Growth Stage

Growth stage
The product's life-cycle stage in which a product's sales start climbing quickly.

If the new product satisfies the market, it will enter a **growth stage**, in which sales will start climbing quickly. The early adopters will continue to buy, and later buyers will start following their lead, especially if they hear favorable word of mouth. Attracted by the opportunities for profit, new competitors will enter the market. They will introduce new product features, and the market will expand. The increase in competitors leads to an increase in the number of distribution outlets, and sales jump just to build reseller inventories. Prices remain where they are or fall only slightly. Companies keep their promotion spending at the same or a slightly higher level. Educating the market remains a goal, but now the company must also meet the competition.

For example, while Amazon's Kindle was the first to offer electronic books, its monochrome, long-life, button-driven device was challenged by Apple's iPad—a colorful, short-life, touch-screen device that can be used for more than reading books. Hence, to keep up with competition, Amazon bought a start-up with innovative touch-screen technology, to build a touch-enabled Kindle.[16]

Profits increase during the growth stage as promotion costs are spread over a large volume and as unit manufacturing costs fall. The firm uses several strategies to sustain rapid market growth for as long as possible. It improves product quality and adds new product features and models. It enters new market segments and new distribution channels. It shifts some advertising from building product awareness to building product conviction and purchase, and it lowers prices at the right time to attract more buyers.

In the growth stage, the firm faces a trade-off between high market share and high current profit. By spending a lot of money on product

❯ There were few competitors during the introduction stage of Amazon's e-book reader, Kindle. During the growth stage, competition became more intense as Apple's iPad entered the market.

improvement, promotion, and distribution, the company can capture a dominant position. In doing so, however, it gives up maximum current profit, which it hopes to make up in the next stage.

Maturity Stage

At some point, a product's sales growth will slow down, and the product will enter a **maturity stage**. This maturity stage normally lasts longer than the previous stages, and it poses strong challenges to marketing management.

Maturity stage
The product life-cycle stage in which sales growth slows or levels off.

The slowdown in sales growth results in many producers with many products to sell. In turn, this overcapacity leads to greater competition. Competitors begin marking down prices, increasing their advertising and sales promotions, and upping their R&D budgets to find better versions of the product. These steps lead to a drop in profit. Some of the weaker competitors start dropping out, and the industry eventually contains only well-established competitors.

Automobile market in India – India used to be a good place for selling cars, with profit margins of around 12 percent compared to 8 percent elsewhere. This attracted big foreign players like Honda, Volkswagen, and General Motors, putting the heat on market leader Suzuki. Because of the influx of new passenger cars designed for the Indian market, companies are boosting spending on incentives and discounts, with profit margins falling to what they are globally. The price pressure has led automakers to minimize profit erosion by seeking lower costs through increasing local procurement of parts and raw materials in India.[17]


With the entry of big foreign manufacturers, the automobile industry is in the maturity stage in India.

Although many products in the maturity stage appear to remain unchanged for long periods of time, the most successful ones evolve to meet changing consumer needs. Product managers modify the market, product, and marketing mix to satisfy customers.

In *modifying the market*, the company tries to increase the consumption of the current product. It may look for new users and new market segments. The manager may also look for ways to increase usage among present customers. Amazon.com does this by sending permission-based emails to regular customers, letting them know when their favorite authors or performers publish new books or CDs.

The company might also try *modifying the product*—changing characteristics such as quality, features, style, or packaging to attract new users and to inspire more usage. It might improve the product's quality and performance—its durability, reliability, speed, taste, and so on. It can improve the product's styling and attractiveness. Thus, car manufacturers restyle their cars to attract buyers who want a new look. The makers of consumer food and household products introduce new flavors, colors, ingredients, or packages to revitalize consumer buying. Or the company might add new features that expand the product's usefulness, safety, or convenience. **Real Marketing 9.2** discusses the history behind the success of venerable brand, Tiger Balm, through product extensions.

Real Marketing 9.2

Crouching Tiger, Leaping Brand:
The Tiger Balm Story

With its famous leaping tiger logo, Tiger Balm in its various forms has been a household icon in millions of Asian homes for more than a century. Be it the traditional balm in its hexagonal jars, medicated plasters or sports rubs, the potent aromatic formula has become the go-to remedy for people in many walks of life seeking relief from aches and pains.

But despite its enduring popularity, few people are aware of the story behind Tiger Balm, especially how the company emerged triumphant from a debilitating experience of management neglect. In fact, its transformation from a small home-based business to an international name holds several interesting and useful lessons for business, particularly with regard to the creation of durable assets such as brand reputation and distribution. The roots of Tiger Balm can be traced to its founding in modern day Myanmar, formerly known as Burma, by the Aw brothers—the sons of Chinese immigrants.

Booming Business

Aw Boon Haw, the brother with the more aggressive streak was known as the 'gentle Tiger'. He refined his father's traditional herbal balm recipe and from a humble beginning of making the balm in his mother's kitchen, the business bloomed to such an extent that sales reached S10 million by 1926.

The early success of the business could be attributed to the marketing savvy of Boon Haw. He cleverly named his product after the powerful tiger and packaged it in what has become the brand's distinctive hexagonal jar. He also built an extensive distribution network, with virtually every Chinese shop in Rangoon stocking the balm, printed his own posters, and went around the town in search of walls to paste them on. In the late 1920s Aw Boon Haw also had the foresight to expand to overseas markets such as Singapore, where he established a manufacturing plant 10 times the size of his original plant back in Burma. He personally visited many Malayan towns in his custom-made car with a Tiger-shaped fabricated head and gave samples of Tiger Balm to the villagers who had assembled to hear him and see his unique car.

Undervalued Brand

The company survived World War II, but faced its greatest challenge when it was taken over for a brief period in the early 1970s by Slater Walker securities. Seriously underestimating the value of the Tiger Balm product line and brand, Slater Walker licensed marketing rights in all regions except Europe and the United States to Thailand's Jack Chia group. All for a rather meager minimum guaranteed sum of S2.74 million per year.

Under the arrangement which lasted 20 years, there was little investment in brand building. In fact, towards the end of the licensing period, the Jack Chia group launched its own competing brand – Lion Balm - for which it was subsequently sued by Tiger Balm. That the Tiger Balm brand survived 20 years of neglect by the Jack Chia group is quite remarkable, especially considering that it was not difficult for competitors to copy Tiger Balm's product or other aspects of its strategy.

Post-1991, having reclaimed the crown jewel by not renewing the licensing arrangement with the Jack Chia group, the new management of Haw Par (as Boon Haw's company was called) expanded manufacturing capacity by establishing four joint ventures, hired Batey Ads (responsible for Singapore Airlines advertisements for a long time), and invested S10 million in an aggressive advertising campaign. It also enhanced the geographic coverage of the distribution to new markets so that by 2008, Tiger Balm was available in as many as 60,000 outlets around the world.

Time for a Tiger

Through product extensions such as pre-exercise rubs and neck-and-shoulder rubs for office staff as well as sponsorships of sporting events such as the L.A. and Boston marathons, Tiger Balm was also repositioned to target a wide range of ailments and a broad range of ages. While some elements of the product were changed, several key elements which had built a loyal following such as the now famous hexagonal jar were retained.

The rebranding and repositioning strategy had succeeded spectacularly—Tiger Balm's biggest markets included the United States and Europe, with a diverse customer base well beyond its traditional core market of immigrant Asians. The key lesson of Tiger Balm's story is that companies can succeed spectacularly by investing in durable assets; in other words, assets having value beyond the current time period.

The 'old' Tiger Balm made these investments in brand creation and distribution; which ensured that the brand could be revived even after 20 years of neglect when it was licensed to the Jack Chia group.

Many small- and medium-sized enterprises tend to invest lesser in durable assets such as distribution, brand building, and technology development in the belief that the gestation period of these investments is too long for them. They would be well-served, however, to learn from Boon Haw's example that it is never too early to invest in these durable assets. In fact, at times it may be too late to invest in them.

Source

Adapted from Nitin Pangarkar, "Crouching Tiger, Leaping Brand: The Tiger Balm Story," *Think Business,* 29 March 2012. Partially reproduced with permission from Think Business, NUS Business School, National University of Singapore (http://thinkbusiness.nus.edu) Copyright NUS Business School.

Finally, the company can try *modifying the marketing mix*—improving sales by changing one or more marketing mix elements. It can cut prices to attract new users and competitors' customers. It can launch a better advertising campaign or use aggressive sales promotions—trade deals, cents-off, premiums, and contests. In addition to pricing and promotion, the company can also move into larger market channels, using mass merchandisers, if these channels are growing. Finally, the company can offer new or improved services to buyers. Consider Heinz in Indonesia:

> **Heinz** – With almost all Indonesian households using its Asian label, ABC soy sauce, Heinz boosted sales through marketing mix modification. It encouraged broader consumer use of its soy sauce through a culinary academy where chefs come up with new ABC recipes. Heinz also added a new pouring cap on the soy sauce bottle and introduced lighter plastic pouches, a potential selling point to the majority of Indonesians who lug their groceries home. It also introduced non-alcoholic drinks made with ABC flavor syrups for the Muslim celebration of Ramadan.[18]

Decline Stage

Decline stage
The product life-cycle stage in which a product's sales decline.

The sales of most product forms and brands eventually dip. The decline may be slow or rapid. Sales may plunge to zero, or they may drop to a low level where they continue for many years. This is the **decline stage**.

Sales decline for many reasons, including technological advances, shifts in consumer tastes, and increased competition. As sales and profits decline, some firms withdraw from the market. Those remaining may prune their product offerings. They may drop smaller market segments and marginal trade channels, or they may cut the promotion budget and reduce their prices further.

Carrying a weak product can be very costly to a firm. A weak product may take up too much of management's time. It often requires frequent price and inventory adjustments. It requires advertising and sales-force attention that might be better used to make "healthy" products more profitable. A product's failing reputation can cause customer concerns about the company and its other products. The biggest cost may well lie in the future. Keeping weak products delays the search for replacements, creates a lopsided product mix, hurts current profits, and weakens the company's foothold on the future.

For these reasons, companies need to pay more attention to their aging products. The firm's first task is to identify those products in the decline stage by regularly reviewing sales, market shares, costs, and profit trends. Then, management must decide whether to maintain, harvest, or drop each of these declining products.

Management may decide to *maintain* its brand without change in the hope that competitors will leave the industry. For example, Procter & Gamble made good profits by remaining in the declining liquid soap business as others withdrew. Or management may decide to reposition or reinvigorate the brand in hopes of moving it back into the growth stage of the product life cycle. P&G has done this with several brands including Mr. Clean and Old Spice.

Management may decide to *harvest* the product, which means reducing various costs (plant and equipment, maintenance, R&D, advertising, sales force) and hoping that sales hold up. If successful, harvesting will increase the company's profits in the short run. Or management may decide to *drop* the product from the line. It can sell it to another firm or simply liquidate it at salvage value. For instance, P&G has sold off a number of lesser or declining brands such as Jif peanut butter. If the company plans to find a buyer, it will not want to run down the product through harvesting.

Additional Product and Service Considerations

We'll wrap up our discussion of products and services with two additional considerations: social responsibility in product decisions and issues of international product and services marketing.

Product Decisions and Social Responsibility

Product decisions have attracted much public attention. Marketers should carefully consider public policy issues and regulations involving acquiring or dropping products, patent protection, product quality and safety, and product warranties.

Regarding new products, the government may prevent companies from adding products through acquisitions if the effect threatens to lessen competition. Companies dropping products must be aware that they have legal obligations, written or implied, to their suppliers, dealers, and customers who have a stake in the dropped product. Companies must also obey patent laws when developing new products. A company cannot make its product illegally similar to another company's established product.

Manufacturers must comply with specific laws regarding product quality and safety. If consumers have been injured by a product that has been designed defectively, they can sue manufacturers or dealers.

International Product and Services Marketing

International product and service marketers face special challenges. First, they must figure out what products and services to introduce and in which countries. Then, they must decide how much to standardize or adapt their products and services for world markets.

On the one hand, companies would like to standardize their offerings. Standardization helps a company to develop a consistent worldwide image. It also lowers the product design, manufacturing, and marketing costs of offering a large variety of products. On the other hand, markets and consumers around the world differ widely. Companies must usually respond to these differences by adapting their product offerings. For example, Nestlé sells a variety of very popular KIT KAT flavors in Japan such as green tea, red bean, and cantaloupe. Beyond taste, KIT KAT's strong following in Japan may also be the result of some unintended cultural factors:

❯ The Nestlé KIT KAT chocolate bar in Japan benefits from the coincidental similarity between the bar's name and the Japanese phrase *kitto katsu*, which roughly translates to "You will surely win!" The brand's innovative "May cherries blossom," campaign has turned the KIT KAT bar and logo into national good luck charms.

KIT KAT has become very popular in Japan because the sweet-toothed Japanese love the bar's taste. Another reason is the coincidental similarity between its name and the Japanese phrase *kitto katsu*, which roughly translates in Japanese as "You will surely win!" Spotting this opportunity, marketers for Nestlé Japan developed an innovative *Juken* (college entrance exam) KIT KAT campaign. The multimedia campaign positions the KIT KAT bar and logo as good luck charms during the highly stressful university entrance exam season. Nestlé even developed a cherry-flavored KIT KAT bar in packaging containing the message "May cherries blossom," wishing students luck in achieving their dreams. And it partnered with Japan's postal service to create "KIT KAT Mail," a postcard-like product sold at the post office that could be mailed to students as an edible good luck charm. The campaign has been such a hit in Japan that it has led to a nationwide social movement to cheer students up for *Juken*. KIT KAT has also become an even broader national good luck charm. For example, a large flag featuring the KIT KAT logo and the phrase *kitto katsu* has been used by fans of professional football team, Jubilo IWATA, which is sponsored by Nestlé Japan.[19]

Packaging also presents new challenges for international marketers. Packaging issues can be subtle. For example, names, labels, and colors may not translate easily from one country to another. Yellow is a favored color in Thailand because it signifies royalty but may meet with disaster in Mexico, where a yellow flower symbolizes death or disrespect. Packaging may also need to be tailored to meet the physical characteristics of consumers in various parts of the world. For instance, soft drinks are sold in smaller cans in Japan to fit the smaller Japanese hand better. Thus, although product and package standardization can produce benefits, companies must usually adapt their offerings to the unique needs of specific international markets.

Service marketers also face special challenges when going global. Some service industries have a long history of international operations. For example, the commercial banking industry was one of the first to grow internationally. Banks had to provide global services to meet the foreign exchange and credit needs of their home country clients wanting to sell overseas.

❯ Yellow is a favored color in Thailand where it signifies royalty and people wear it as a sign of respect for the king.

Professional and business services industries such as accounting, management consulting, and advertising have also globalized. The international growth of these firms followed the globalization of the client companies they serve. For example, as more clients employ worldwide marketing and advertising strategies, advertising agencies have responded by globalizing their own operations. McCann Worldgroup, a large U.S.-based advertising and marketing services agency, operates in more than 120 countries. It serves international clients such as Coca-Cola, General Motors, Microsoft, MasterCard, and Nestle in markets ranging from the United States to Korea. Moreover, McCann Worldgroup is one company in the Interpublic Group of Companies, an immense, worldwide network of advertising and marketing services companies.

Retailers are among the latest service businesses to go global. As their home markets become saturated, Japanese retailers such as UNIQLO are expanding into faster-growing markets abroad. It has over 800 stores across Japan and over 1,700 stores overseas in the United Kingdom, the United States, France, Hong Kong, Malaysia, Singapore, Taiwan, Korea, and China.

Reviewing Objectives and Key Terms

A company's current products face limited lifespans and must be replaced by newer products. But new products can fail—the risks of innovation are as great as the rewards. The key to successful innovation lies in customer focus, total company effort, strong planning, and a systematic *new-product development* process.

OBJECTIVE 1 Explain how companies find and develop new-product ideas. (pp. 286)

Companies find and develop new-product ideas from a variety of sources. Many new-product ideas stem from *internal sources*. Companies conduct formal R&D. Or they pick the brains of their employees, urging them to think up and develop new-product ideas. Other ideas come from *external sources*. Companies track *competitors'* offerings and obtain ideas from *distributors and suppliers* who are close to the market and can pass along information about consumer problems and new-product possibilities.

Perhaps the most important source of new-product ideas is customers themselves. Companies observe customers, invite their ideas and suggestions, or even involve customers in the new-product development process. Many companies are now developing *crowdsourcing* or *open-innovation* new-product idea programs, which invite broad communities of people—customers, employees, independent scientists and researchers, and even the general public—into the new-product innovation process. Truly innovative companies do not rely only on one source or another for new-product ideas.

OBJECTIVE 2 List and define the steps in the new-product development process and the major considerations in managing this process. (pp. 286–299)

The new-product development process consists of eight sequential stages. The process starts with *idea generation*. Next comes *idea screening*, which reduces the number of ideas based on the company's own criteria. Ideas that pass the screening stage continue through to *product concept development*, in which a detailed version of the new-product idea is stated in meaningful consumer terms. In the next stage, *concept testing*, new-product concepts are tested with a group of target consumers to determine whether the concepts have strong consumer appeal. Strong concepts proceed to *marketing strategy development*, in which an initial marketing strategy for the new product is developed from the product concept. In the *business-analysis* stage, a review of the sales, costs, and profit projections for a new product is conducted to determine whether the new product is likely to satisfy the company's objectives. With positive results here, the ideas become more concrete through *product development* and *test marketing* and finally are launched during *commercialization*.

New-product development involves more than just going through a set of steps. Companies must take a systematic, holistic approach to managing this process. Successful new-product development requires a customer-centered, team-based, systematic effort.

OBJECTIVE 3 Describe the stages of the product life cycle and how marketing strategies change during a product's life cycle. (pp. 299–307)

Each product has a *life cycle* marked by a changing set of problems and opportunities. The sales of the typical product follow an S-shaped curve made up of five stages. The cycle begins with the *product development stage* in which the company finds and develops a new-product idea. The *introduction stage* is marked by slow growth and low profits as the product is distributed to the market. If successful, the product enters a *growth stage*, which offers rapid sales growth and increasing profits. Next comes a *maturity stage* in which the product's sales growth slows down and profits stabilize. Finally, the product enters a *decline stage* in which sales and profits dwindle. The company's task during this stage is to recognize the decline and decide whether it should maintain, harvest, or drop the product. The different stages of the PLC require different marketing strategies and tactics.

OBJECTIVE 4 Discuss two additional product issues: socially responsible product decisions and international product and services marketing. (pp. 307–309)

Marketers must consider two additional product issues. The first is *social responsibility*. This includes public policy issues and regulations involving acquiring or dropping products, patent protection, product quality and safety, and product warranties. The second involves the special challenges facing international product and services marketers. International marketers must decide how much to standardize or adapt their offerings for world markets.

Key Terms

OBJECTIVE 1
New-product development (p 286)

OBJECTIVE 2
Idea generation (p 287)
Crowdsourcing (p 289)
Idea screening (p 289)
Product concept (p 289)
Concept testing (p 292)
Marketing strategy development (p 293)
Business analysis (p 294)
Product development (p 294)
Test marketing (p 295)
Commercialization (p 296)
Customer-centered new-product development (p 297)
Team-based new-product development (p 298)

OBJECTIVE 3
Product life cycle (PLC) (p 299)
Style (p 300)
Fashion (p 300)
Fad (p 300)
Introduction stage (p 302)
Growth stage (p 302)
Maturity stage (p 303)
Decline stage (p 306)

Discussing the Concepts

1. Name and describe the major steps in developing a new product. (AACSB: Communication)
2. Define *crowdsourcing* and describe an example not already presented in the chapter. (AACSB: Communication; Reflective Thinking)
3. Compare and contrast the terms *product idea*, *product concept*, and *product image*. (AACSB: Communication)
4. Explain why successful new-product development requires a customer-centered, team-based, and systematic effort. (AACSB: Communication)
5. Why do products enter the decline stage of the product life cycle? Discuss marketers' options at this stage. (AACSB: Communication)
6. Discuss the special challenges facing international product and service marketers. (AACSB: Communication)

Applying the Concepts

1. Visit http://creatingminds.org/tools/tools_ideation.htm to learn about idea generation techniques. Form a small group and have each group member explain a different technique to the rest of the group. Apply one or more of the techniques to generate four new-product ideas. Present your ideas to the rest of the class and explain the techniques your group applied to generate the ideas. (AACSB: Communication; Use of IT; Reflective Thinking)
2. Coca-Cola has sustained success in the maturity stage of the product life cycle for many years. Visit Coca-Cola's Web site (www.thecoca-colacompany.com/heritage/ourheritage.html) and discuss how Coca-Cola has evolved over the years. Identify ways that Coca-Cola can continue to evolve to meet changing consumer needs and wants. (AACSB: Communication; Use of IT; Reflective Thinking)

3. To acquire new products, many companies purchase other firms or buy individual brands from other companies. For example, Disney purchased Marvel Entertainment and its portfolio of more than 5,000 characters, such as Spider-Man and Captain America. Discuss two other examples of companies acquiring new products through this means. (AACSB: Communication; Reflective Thinking)

Focus on Technology

Technology is speeding up new-product development while also reducing its costs. What formerly took months and cost millions of dollars can now be done in seconds and for pennies. Because technology is making new-product testing easy and accessible to just about any employee, from the chief executive officer to maintenance personnel, predictions are for a groundbreaking change in corporate cultures surrounding new-product development. An employee may come up with a great idea and test it—all in a single day. This new environment may present some challenges, however. One is that managers must be prepared to give up control and empower employees. Another is "scaling," which means companies must be able to scale or implement new ideas rapidly and efficiently.

1. What skills would you need to function in this type of work environment? (AACSB: Communication; Reflective Thinking)
2. Google is already ahead of this curve. Visit Google Labs (www.googlelabs.com) to learn about new products that are still in the testing stage—what Google calls the "playground stage." Briefly discuss two of the experiments and explain why Google hosts a site such as Google Labs. (AACSB: Communication; Reflective Thinking; Use of IT)

Focus on Ethics

There is usually a lot of publicity that surrounds the launch of a new Apple product. The iPhone 4 was no exception. Unfortunately, much of it was negative, with some critics even labeling the introduction "Antenna-gate." Within days of the product's release, reports surfaced of reduced signal strength and dropped calls. The problem resulted from the sleeker, slimmer phone's antenna, consisting of a metal band around the side of the phone. Apple's response was that all smartphones have signal problems, and that users should hold the phone differently and purchase a case for about $30 to fix the problem. It turned out that Apple engineers knew of this issue a year before the product was launched, but Steve Jobs, CEO of Apple, Inc., liked the design and opted to go ahead with it. The controversy even caught the ear of a U.S. senator, who urged Jobs to fix the problem at no cost to consumers. Contrary to typical industry practice, AT&T, the exclusive service provider for Apple's phones, was allowed to test only a disguised phone for a very limited time without touching it, so the problem was not discovered during testing. Apple later announced that all purchasers would receive a free case and reimbursed users who had already purchased one. This controversy didn't hurt sales, though; Apple sold 3 million of the new phones in just three weeks and could not keep up with demand.

1. Should Apple have released the iPhone 4 when engineers were aware of the antenna problem? Discuss the pros and cons of further testing before launching the product. (AACSB: Communication; Ethical Reasoning; Reflective Thinking)
2. Did Apple handle the situation effectively? Did Apple's iPhone lose brand equity from this controversy? (AACSB: Communication; Ethical Reasoning; Reflective Thinking)

Marketing & the Economy

Coach, Inc.

As consumer shopping patterns began to shift during a slowing economy in late 2007, executives at Coach, Inc. were paying attention. Through ongoing research, they determined that a new "normal" was emerging—one in which more frugal consumers shopped less and spent less when they did shop. At that time, the average price of a Coach handbag was about $330. Coach knew it had to become more innovative, relevant, and value-oriented without cheapening the brand's image. Coach's managers went to work to find new sources of materials, renegotiate terms with suppliers, and develop new products. As the result of a year-long effort, Coach unveiled a new line of products called "Poppy." With the average price of a Poppy handbag at $260, the line is designed to be more affordable without compromising the brand's image. Unlike most luxury brands, Coach's revenue has maintained moderate but steady growth over the past four years. And although profit growth wavered somewhat, the company has remained in the black. Perhaps that's why during the most recent 18 months, its stock price has risen by 167 percent. Coach really does seem to understand the new "normal."

1. Explain how a $260 purse can be viewed as good value in the context of the Coach brand.
2. Is Coach safe or will the new "normal" still catch up with the company's financial performance?
3. What suggestions would you make to Coach management for future product development?

Marketing by the Numbers

Apple introduced the iPhone 4 in 2010 but still continued to offer the iPhone 3GS. The 16 GB base version of the iPhone 4 was priced at $199, with unit variable costs equal to $187. The iPhone 3GS price had decreased to $99 by the time the iPhone 4 was introduced, and its unit variable costs were $65.

1. Refer to Appendix 2 and calculate the incremental contribution realized by adding the new iPhone 4 if sales during the first six months of launch were 5 million units. However, the company also estimated that 30 percent of iPhone 4 sales came from customers who would have purchased the iPhone 3G but instead purchased the base model of the iPhone 4.
(AACSB: Communication; Analytic Reasoning)
2. Apple also offered a 32-GB version of the iPhone 4 at $299. Variable costs for that version were $250. Besides its higher price, explain why Apple would encourage customers to purchase the 32-GB over the 16-GB version. (AACSB: Communication; Analytic Reasoning; Reflective Reasoning)

Video Case

General Mills–FiberOne

General Mills has been mass-marketing food since 1860. Today, it sells over $15 billion worth of packaged food each year in over 100 countries. In the U.S. alone, General Mills markets over 100 leading brands, such as Cheerios, Betty Crocker, Pillsbury, and Green Giant. With all this experience, General Mills certainly has an advantage when it comes to introducing and managing products.

Not many years ago, FiberOne was a little-known brand without much of a footprint. The FiberOne video illustrates how General Mills grew the brand's annual sales from $35 million to more than $500 million in just five years. This growth came primarily from creating and managing new products. FiberOne was originally a line of food bars. But the FiberOne brand name is now found on numerous products, including toaster pastries, bread, yogurt, cold cereal, and even cottage cheese. After viewing the video featuring FiberOne, answer the following questions about the company.

1. Most new products fail. Why has General Mills had success with so many new product introductions in the FiberOne line?
2. Give an example of a FiberOne product in each phase of the product life cycle. Give evidence to support your decisions.
3. For each product identified in question 2, identify one strategy that General Mills is employing for each product that is appropriate for its life-cycle phase.

Company Case

Disneyland:
Not the Happiest Place in Hong Kong

"The Happiest Place on Earth." Walt Disney World is one of the most frequented vacation destinations in the world. In 2014, the company reported an increase in revenues by 15 percent with revenue of HK$631 million. A part of the success is probably due to the group's attention to details that culminate to provide an experience that is unique and enjoyable for each adult and child.

The eleventh and smallest of Disneyland theme parks is Hong Kong Disneyland (HKD), which was opened in September 2005 with the Hong Kong government as a co-owner. Despite the intense investment put in by the Disney Corporation in building this theme park, Hong Kong Disneyland was received with moderate enthusiasm. When it opened the park spanned just 126 hectares and included four "lands"—Fantasyland, Tomorrowland, Adventureland, and Main Street USA—along with two hotels.

A Wish Upon A Star

Disney was ready to expand its international market with local adaptations and was looking to be a part of the strong economic performance shown by Mainland China. Prior to its inauguration, the management team at Disney was conscious of Chinese culture and adapted much of the park and its hotels to appeal to the Chinese. Geomancy or *fengshui* was consulted. The park faces water with mountains behind to suggest plentiful inflow of revenue and visitors, while being protected in the rear.

The park's front gate was shifted 12 degrees to bring prosperity. To ensure the flow of positive energy there is a bend in the walkway from the train station to the gate. The lucky color red is frequently used to accent Main Street, the park's opening walkway.

Disneyland Hotel's main ballroom measures 888 square meters and the chandelier in its Chinese restaurant contains 2,238 crystal lotuses, a number that sounds like "easily generate wealth" in Cantonese, the Chinese dialect spoken in Hong Kong. Disney hotels in Hong Kong do not have fourth floors as "4" sounds like "death" in Cantonese.

A Diminishing Sparkle

This venture was supposed to have spearheaded Disney's future operations in China. However, despite these adaptations, visitors fell short of expectations. In its first year of operation, visitors to HKD fell 400,000 short of the park's target of 5.6 million. In its second year, attendance fell to 4.27 million. Euromonitor estimated that the park made an operating loss of $46 million in its first year and $162 million in its second year. As such, the park which was initially expected to contribute $19 billion to the Hong Kong economy over 40 years had its forecasted contribution cut to $15 billion.

While Disney did try to take cultural sensitivities and expectations into account, they were unable to adapt themes to the viewership of China. Most of the teenagers and middle-aged crowd had not grown up on a staple diet of American television shows and animated movies; they were more familiar with Japanese pop culture. Hong Kong Disneyland's efforts to introduce characters from the U.S. mainstream media fell short when it came to attracting locals to the park.

HKD did not attract hordes of mainland Chinese tourists that it had anticipated. It lacked cultural relevance. While mainland Chinese are familiar with Mickey and Minnie Mouse, they are not familiar with the concept of storytelling and waiting in long lines for a ride or performance. Yet, the Chinese market is lucrative. Some 67 percent of visitor arrivals to Hong Kong is from mainland China.

But the dismal attendance belies other operations issues, namely the unpredictably of attendance. On some days, the park is too small to handle the crowd. During the Lunar New Year in 2006, hundreds of tourists were turned away after the park filled up. Angry tourists tried to force their way into the park by climbing over fences. This led HKD to revise its ticketing policy and designate periods close to Chinese public holidays as "special days" during which admission will be allowed through date-specific ticket.

HKD also underestimated its rival, Ocean Park, a 30-year old marine life park. Jolted by HKD's entry into Hong Kong, Ocean Park began a six-year Master Redevelopment Plan that saw it add a funicular railway, two theme areas, and an epic Frank Gehry-designed aquarium. With these additions, Ocean Park saw its visitorship increase from 3 million to over 7 million a year. Also, since a majority of the population regard education as a premium element Ocean Park, with its educational stance, did gain a few brownie points. Disney, while keeping an eye out for cultural influences, had overlooked this nuance.

HKD improved on its offerings with expansion that included Toy Story Land and Grizzly Gulch, a new "land" that features rides based on the 19th century gold rush period.

It was not until seven years after its opening that HKD turned around. On the back of 6.7 million visitorship, with 45 percent from mainland China, 33 percent locals, and the rest from international markets, HKD made $14 million profit from $550 million of revenue. But this was shortlived as in 2015 it generated a loss of $19 million despite an increase in revenue to $659 million.

HKD is fraught with looming competition, no less than from its sister park, Shanghai Disneyland. The park opened in June 2016. It is much larger. It also debut the Mandarin-speaking version of the top grossing musical, Lion King. One of the major attractions is Treasure Cove, the first Pirates of the Caribbean themed park in the world. To interweave the Chinese perspective, there is an 11-acre park called the Garden of the Twelve Friends that features 12 massive mosaics depicting the 12 signs of the Chinese Zodiac using Disney characters.

Keep Moving Forward, Opening New Doors

During HKD's 10th anniversary week Bob Chapek, Disney Parks chairman, announced that the theme park in Hong Kong would see a few additions, which include Mickey and the Wondrous Workbook, a musical adaptation of Disneyland's Mickey and the Magical Map; a walkthrough attraction called the Fairy Tale Forest; and an intensified firework show. In 2016, HKD launched Star Wars: Command Post where visitors enjoy character experience including learning to be a Jedi knight in Jedi Training: Trials of the Temple.

Disney continues to be optimistic as it opens it doors of Shanghai Disney in 2016, a theme park that offers visitors a multitude of attractions across six themed lands—Adventure Isle, Gardens of Imagination, Mickey Avenue, and Tomorrowland. Disney has said that the innovations and entertainment value of the theme park is especially directed towards its Chinese guests and is the first of its kind in mainland China. Bob Iger, Disney Chairman and CEO, expressed the opportunities for growth in China and said, "The opportunity to bring such a great product, a Disney theme park, to the most populous country in the world, to the most populous city there – to Shanghai, is really exciting for us".

Questions for Discussion

1. How would you assess the launch of Hong Kong Disneyland in 2005 in the context of a new product and the marketing mix?
2. At what stage of the product life cycle do you think Hong Kong Disneyland is in now?
3. What strategies do you think Hong Kong Disneyland should engage in to strengthen its position?

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Objective Outline

OBJECTIVE 1
Answer the question "What is a price?" and discuss the importance of pricing in today's fast-changing environment.
What is a Price? (320)

OBJECTIVE 2
Identify the three major pricing strategies and discuss the importance of understanding customer-value perceptions, company costs, and competitor strategies when setting prices.
Major Pricing Strategies (320–328)

OBJECTIVE 3
Identify and define the other important external and internal factors affecting a firm's pricing decisions.
Other Internal and External Considerations Affecting Price Decisions (328–335)

Chapter 10

Pricing Products: Understanding and Capturing Customer Value

Previewing the Concepts

We now look at a second major marketing mix tool—pricing. Firms successful at creating customer value with the other marketing mix activities must still capture some of this value in the prices they earn. Yet despite its importance, many firms do not handle pricing well. In this chapter, we'll look at internal and external considerations that affect pricing decisions and examine general pricing approaches. In the next chapter, we look into pricing strategies.

For openers, let's look at Daiso, the budget Japanese chain that has managed to keep costs down.

Daiso: A Cost Effective Approach

In 1972, a young Hirotake Yano started a street stall, Yano Shoten, selling 100-yen products to anyone who would be interested. Today, the concept has evolved into Daiso, one of the largest Japanese operators of the 100-yen stores, or the *hyaku-en shoppu*, with over 3,000 such stores across the world. Its reach has made it possible for Daiso to produce high-quality goods at lower costs. Its mission is to help customers find surprises in every purchase by making products available at prices that they would otherwise have not expected. The 100-yen stores are located alongside expensive department stores and trendy boutiques that sell melons for 13,000 yen each and designer label clothes for considerably more. Daiso continues to expand at an average rate of 30 new stores a month. The company has around 70,000 products, developing 99 percent of them in-house and constantly looking to create around 500 new products every month. Until recently, all products in Daiso, from packaged food to cosmetics to office supplies to household products such as buckets and cutlery, used to be priced at 100-yen.

Daiso, the name being a combination of two Japanese words that can be inferred as big creation, worked towards offering an extensive range of products of excellent quality at the best possible prices. While selling trinkets off the back of a truck in 1972, Yano realized that it was very difficult to keep up with the large groups of people interested in buying his products and who wanted to know the price of each good immediately. The solution to this problem was born in the form of Daiso, a store where all items will be sold at the same price.

Yano believes that the success of Daiso lies in the quality of its products, its vast range, and its value-for-money pricing. The concept is very similar to the

> The success of Daiso lies in the quality of its products, its vast range, and its value-for-money pricing.

American dollar stores. However, unlike the dollar stores, which are difficult to locate in mainstream malls and which most Americans associate with low-quality items and poor customer service, Daiso is keen on offering quality products at low prices. The stores can be found at certain major malls, like the IIAS Tsukuba that is considered to be one of the larger malls in the Kanto area of Japan, and also as local standalone outlets.

So how does Daiso keep its prices constant with the increasing cost of raw materials and the dollar strengthening relative to the yen? Daiso has employed a mixed-bag of pricing strategies to meet its mission and vision. However, its main view is based on cost-based pricing, where costs set the floor for the price range employed by the company.

As part of this strategy, Daiso relies heavily on economies of scale. These are cost advantages that organizations enjoy owing to size, output, and scale of its operations. The worldwide supply for all Daiso stores is done by Daiso Japan. Daiso places large orders to each of its manufacturers, enabling it to book the production line of a factory for a year or more. It sells each product in smaller quantities to its consumers at slightly higher prices. This bulk production and purchase also takes care of certain logistics costs. Even during inflation packaging becomes easier even during inflation, as suppliers can package the goods so that each unit can be sold at the price decided, and all Daiso needs to do is reduce the volume of units sold.

Discount retailers, like Daiso, do tend to enjoy higher demand during lean times with their outlook less clear when economies are recovering; however, consumers in Japan and other countries are proving that these bargain stores are effective and worth returning to regardless of the economic cycles faced by the nations.

Low-cost manufacturing is another key feature. About 30 percent of its merchandise is made in Japan while the remaining 70 percent is outsourced to countries like China, Thailand, and India. As long as the merchandise meets Daiso's quality standard, it does not matter where they are manufactured.

While affordable prices appeal to price-sensitive shoppers, Daiso has used affordable pricing to effectively reduce consideration time, which facilitates impulse purchases. The company keeps introducing new items and changing their product portfolio so that regular customers are far from bored and every individual customer is enticed into buying goods on impulse rather than after thoughtful consideration.

In 2014, Euromonitor International estimated the total market size of dollar stores in Asia at about $48.76 billion and had then expected it to grow 4 percent in the next five years. Analysts have found that the rigorous growth of such stores in areas where local utility stores and grocery retailers usually operate will create strong competition. In this competitive environment, the key for organizations like Daiso is the ability to remain relevant and possess the right product strategy. With its fixed-price strategy, which helps to set expectations on pricing even before a consumer walks into a store, Daiso has made surprisingly "chic" products more attractive to its customers. For example, people who dislike soiling their fingers when eating grapes can purchase grape gripper, which is regarded as one of the more popular products at the Japanese store.

One of the results of Daiso's fixed-price strategy is the psychological effect that comes into play. With the low price ranges, most consumers who visit Daiso automatically assume that since the products are cheap they can afford to buy more than they would be able to in other stores. Yano insists that Daiso has done well because people appreciate its product quality, and not just the price. This further corroborates that Daiso doesn't just thrive during a period of recession, but continues to grow when the economy is healthy.

Another pricing technique that Daiso applies is loss leader pricing. Through this strategy, the company sells certain products below the cost price to attract more customers. These customers will boost the sales of more profitable products, thus, making up for the losses Daiso suffered from producing goods that involved greater production costs, like dinnerware or kitchen appliances as compared to paper products.

Daiso's workflow and organizational processes also factor into the pricing strategy. Much like an all-you-can-eat buffet at a local restaurant, Daiso manages to reduce its transaction costs by reducing the number of departments they have. Instead of employing cashiers and janitors, the company has its regular employees take turns to perform these duties. Even customer service is limited with Daiso preferring to adopt a self-service approach.

For businesses to survive in a constantly evolving market, past models must be put aside and the company should be more flexible in its responses, creating change from within. Yano believes in the importance of self-denial in order to increase the sustainability of the business.

As stated in the company's website, in the 20th century, for most businesses in Japan, growth had been assumed right from the start. It was not something that would be researched into or investigated in terms of market performance or economic health of the country. However, in this century, businesses realize the importance of understanding how company may grow with respect to its strategies and the market. This motivates each company, like Daiso, to quickly analyze and gather the required market knowledge and apply that to business models in order to survive and overcome the challenges faced.

Since the beginning of its 100-yen shops, the challenges faced by Daiso have also evolved. One such instance is the company having to move away from the original business model of "everything for 100 yen," and creating products for 200 yen and more. If it costs Daiso more than it costs other players in the market to produce and sell its products, the company should consider increasing the price of its products. If it doesn't, it may make less profit, which will reduce its competitive advantage. In 2015, Daiso announced that it would be introducing a few products at several new price points across a small percentage, less than 4 percent, of its stocks.

Daiso's pricing strategies have led to growth, but only through constant trials and errors, with each learning curve increasing Daiso's chances of survival.[1]

Companies today face a fierce and fast-changing pricing environment. Value-seeking customers have put an increasing pricing pressure on many companies. Yet cutting prices is often not the best answer as it can lead to lost profits and damaging price wars. It can cheapen a brand by signaling to customers that price is more important than the customer value delivered by a brand. Instead, in both good economic conditions and in less favorable periods, companies should sell value and not price. In some cases, that means selling lesser products at rock-bottom prices. However, in most cases it means persuading customers that paying a higher price for the company's brand is justified by the greater value they gain.

What is a Price?

In the narrowest sense, **price** is the amount of money charged for a product or service. It is the sum of all the values that customers give up to gain the benefits of having or using a product or service. It is one of the most important elements in determining a firm's market share and profitability.

Price
The amount of money charged for a product or service; the sum of the values that consumers exchange for the benefits of having or using the product or service.

› **Pricing** – No matter what the state of the economy, companies should sell value, not price.

Price is the only element in the marketing mix that produces revenue; all other elements represent costs. Price is also one of the most flexible marketing mix elements. Unlike product features and channel commitments, prices can be changed quickly. At the same time, pricing is the number one problem faced by many marketing executives, and many companies do not handle pricing well. One frequent problem is that companies are too quick to reduce prices to get a sale rather than convince buyers that their product's greater value is worth a higher price. Other common mistakes include pricing that is too cost-oriented rather than customer-value-oriented, and pricing that does not take the marketing mix into account.

Smart managers treat pricing as a key strategic tool for creating and capturing customer value. Prices have a direct impact on a firm's bottom line. More importantly, as a part of a company's overall value proposition, price plays a key role in creating customer value and building customer relationships.

Major Pricing Strategies

The price the company charges falls between one that is too high to produce any demand and one that is too low to produce a profit. **Figure 10.1** summarizes the major considerations in setting price. Customer perceptions of the product's value set the ceiling for prices. If customers perceive that the price is greater than the product's value, they will not buy the product. Product costs set the floor for prices. If the company prices the product below its costs, company profits will suffer. In setting its price between these two extremes, the company must consider a number of other internal and external factors, including its overall marketing strategy and mix, the nature of the market and demand, and competitors' strategies and prices.

FIGURE 10.1
Considerations in setting price

Customer Value-Based Pricing

In the end, the customer will decide whether a product's price is right. Pricing decisions, like other marketing mix decisions, start with customer value. When customers buy a product, they exchange something of value (the price) to get something of value (the benefits of having or using the product). Effective, customer-oriented pricing involves understanding how much value customers place on the benefits they receive from the product and setting a price that captures this value.

Customer value-based pricing uses buyers' perceptions of value, not the seller's cost, as the key to pricing. Value-based pricing means that the marketer cannot design a product and marketing program and then set the price. Price is considered along with the other marketing mix variables *before* the marketing program is set.

Customer value-based pricing
Setting prices based on buyers' perceptions of value rather than on the seller's cost.

Figure 10.2 compares value-based pricing with cost-based pricing. Cost-based pricing is product-driven. The company designs what it considers to be a good product, adds up the costs of making the product, and sets a price that covers costs plus a target profit. Marketing then convinces buyers that the product's value at that price justifies its purchase. If the price turns out to be too high, the company must settle for lower markups or lower sales, both resulting in disappointing profits.

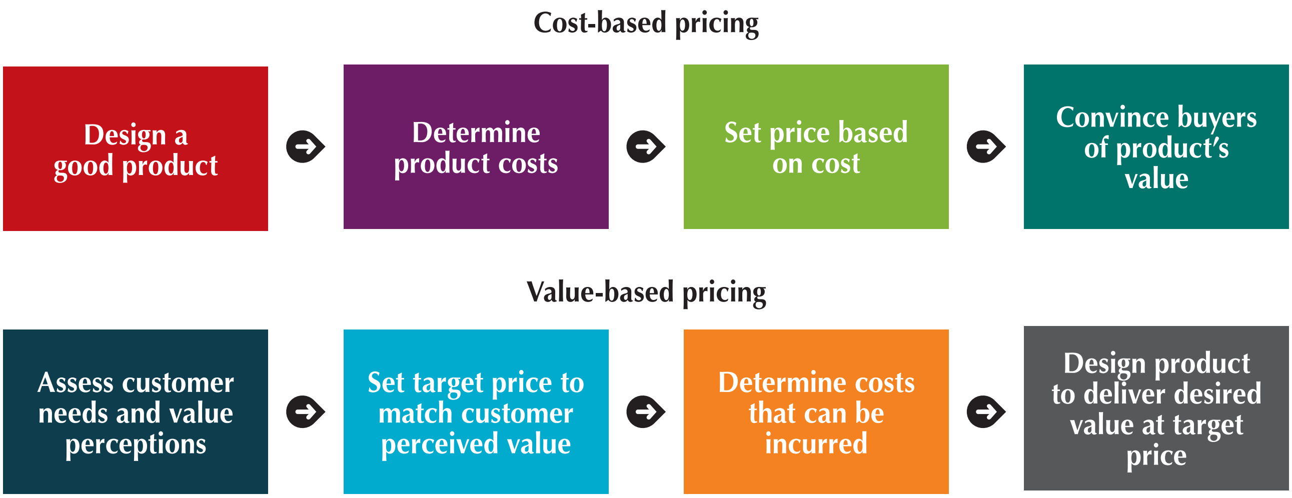

FIGURE 10.2
Value-based pricing versus cost-based pricing

Value-based pricing reverses this process. The company sets its target price based on customer perceptions of the product value. The targeted value and price then drive decisions about product design and what costs can be incurred. As a result, pricing begins with analyzing consumer needs and value perceptions, and the price is then set to match consumers' perceived value.

It's important to remember that "good value" is not the same as "low price." For example, prices for a Hermès Birkin bag start at $6,000—a less expensive handbag might carry as much, but some consumers place great value on the intangibles they receive from a one-of-a-kind handmade bag that has a year-long waiting time.

A company using value-based pricing must find out what value buyers assign to different competitive offers. However, companies often find it hard to measure the value customers will attach to their products. For example, calculating the cost of ingredients in a meal at a fancy restaurant is relatively easy. But assigning a value to

The waiting time for a Hermès Birkin bag ranges from anywhere between one to two years, and prices reach six-digit sums if the bag is made of exotic animal skin. The exclusivity of the bag makes it even more valuable to consumers who are willing to fork out money to obtain one.

other satisfactions such as taste, environment, relaxation, conversation, and status is challenging. Also, these values vary both for different consumers and different situations.

Sometimes, companies ask consumers how much they would pay for a basic product and for each benefit added to the offer. Or a company might conduct experiments to test the perceived value of different product offers.

We now examine two types of value-based pricing: *good-value pricing* and *value-added pricing*.

Good-Value Pricing

Good-value pricing
Offering just the right combination of quality and good service at a fair price.

During the past decade, marketers have noted a fundamental shift in consumer attitudes toward price and quality. Many companies have changed their pricing approaches to bring them in line with changing economic conditions and consumer price perceptions. More and more, marketers are adopting **good-value pricing** strategies—offering just the right combination of quality and good service at a fair price.

In many cases, this has involved introducing less-expensive versions of established, brand-name products. Fast-food restaurants such as McDonald's offer "value menus." Armani offers the less-expensive, more casual Armani Exchange fashion line. In other cases, good-value pricing has involved redesigning existing brands to offer more quality for a given price or the same quality for less. For MNCs, offering good-value pricing does not necessarily mean matching local prices or even lower ones. The key is to make the product affordable to the majority of customers. Some companies even succeed by offering less value, but at rock-bottom prices. For example, passengers flying low-cost Malaysian airline AirAsia won't get many free amenities, but they like its unbelievably low prices.

NTUC FairPrice introduced a basket of Everyday Low Price (EDLP) essential items priced equal to or lower than competitors to ensure affordability.

An important type of good-value pricing at the retail level is *everyday low pricing (EDLP)*. EDLP involves charging a constant, everyday low price with few or no temporary price discounts. In contrast, *high-low pricing* involves charging higher prices on an everyday basis but running frequent promotions to lower prices temporarily on selected items. The king of EDLP is Wal-Mart. Except for a few sale items every month, Wal-Mart promises everyday low prices on everything it sells. In Singapore, local supermarket chain NTUC FairPrice has followed Wal-Mart's example of offering everyday low prices as well. To offer everyday low prices, a company must first have everyday low costs.

Value-Added Pricing

Value-added pricing
Attaching value-added features and services to differentiate a company's offers and to support charging higher prices.

In many business-to-business marketing situations, the challenge is to build the company's *pricing power*—its power to escape price competition and to justify higher prices and margins without losing market share. To retain pricing power, a firm must retain or build the value of its market offering.

To increase their pricing power, many companies adopt **value-added pricing** strategies. Rather than cutting prices to match competitors, they attach value-added features and services to differentiate their offers and thus support higher prices. Consider this example:

Stag Umbrellas – The monsoon season in Mumbai is three months of near-non-stop rain. Mumbaikars protect themselves with a Stag umbrella from Ebrahim Currim & Sons. The basic Stag was sturdy, affordable, and black. However, by the end of the 20th century, Stag was threatened by cheaper imports from China. Stag responded by dropping prices and lowering quality. It was a bad move. For the first time since the 1940s, the brand began losing money. Finally, the company abandoned the price war and started innovating. It launched designer umbrellas in funky designs and cool colors. Teenagers and young adults lapped them up. It then launched umbrellas with a built-in high-power flashlight for those who walk unlit roads at night and models with prerecorded tunes for music lovers. For women who walk secluded streets after dark, there's Stag's Bodyguard model, armed with glare lights, emergency blinkers, and an alarm. Customers willingly pay up to a 100 percent premium for the new products. Under the revised value-added strategy, the Stag brand returned to profitability, priced at 15 percent higher than the imports.[2]

The Stag example illustrates that customers are motivated not by price but by what they get for what they pay. Customers want value and are willing to pay for it.

Cost-Based Pricing

Whereas customer-value perceptions set the price ceiling, costs set the floor for the price that the company can charge. **Cost-based pricing** involves setting prices based on the costs of producing, distributing, and selling the product plus a fair rate of return for its effort and risk. A company's costs may be an important element in its pricing strategy. Many companies, such as AirAsia, Carrefour, and Dell, work to become the "low-cost producers" in their industries. Companies with lower costs can set lower prices that result in greater sales and profits.

Types of Costs

A company's costs take two forms, fixed and variable. **Fixed costs** (also known as **overhead**) are costs that do not vary with production or sales level. For example, a company must pay each month's bills for rent, air-conditioning, interest, and executive salaries, regardless of the company's output. **Variable costs** vary directly with the level of production. Each PC produced by Lenovo involves the cost of computer chips, wires, plastic, packaging, and other inputs. These costs tend to be the same for each unit produced. They are called variable because their total varies with the number of units produced. **Total costs** are the sum of the fixed and variable costs for any given level of production. Management wants to charge a price that will at least cover the total production costs at a given level of production.

The company must watch its costs carefully. If it costs the company more than it costs competitors to produce and sell its product, the company must charge a higher price or make less profit, putting it at a competitive disadvantage.

Cost-based pricing
Setting prices based on the costs for producing, distributing, and selling the product plus a fair rate of return for effort and risk.

Fixed costs (or overhead)
Costs that do not vary with production or sales level.

Variable costs
Costs that vary directly with the level of production.

Total costs
The sum of the fixed and variable costs for any given level of production.

Costs at Different Levels of Production

To price wisely, management needs to know how its costs vary with different levels of production. For example, suppose Casio has built a plant to produce 1,000 calculators per day. **Figure 10.3A** shows the typical short-run average cost (SRAC) curve. It shows that the cost per calculator is high if Casio's factory produces only a few per day. But as production moves up to 1,000 calculators per day, average cost falls. This is because fixed costs are spread over more units, with each one bearing a smaller share of the fixed cost. Casio can try to produce more than 1,000 calculators per day, but average costs will increase because the plant becomes inefficient. Workers wait for machines, the machines break down more often, and workers get in each other's way.

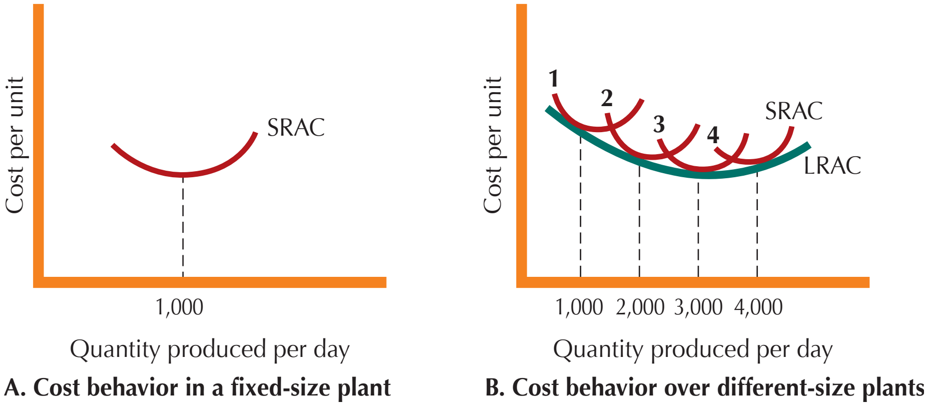

FIGURE 10.3
Cost per unit at different levels of production per period

If Casio believes it can sell 2,000 calculators a day, it should consider building a larger plant. The plant would use more efficient machinery and work arrangements. Also, the unit cost of producing 2,000 calculators per day would be lower than the unit cost of producing 1,000 units per day, as shown in the long-run average cost (LRAC) curve (**Figure 10.3B**). In fact, a 3,000-capacity plant would even be more efficient, according to Figure 10.3B. But a 4,000-daily production plant would be less efficient because of increasing diseconomies of scale—too many workers to manage, paperwork slowing things down, and so on. Figure 10.3B shows that a 3,000-daily production plant is the best size to build if demand is strong enough to support this level of production.

Costs as a Function of Production Experience

Suppose Casio runs a plant that produces 3,000 calculators per day. As Casio gains experience in producing calculators, it learns how to do it better. Workers learn shortcuts and become more familiar with their equipment. With practice, the work becomes better organized, and Casio finds better equipment and production processes. With higher volume, Casio becomes more efficient and gains economies of scale. As a result, average cost tends to fall with accumulated production experience. This is shown in **Figure 10.4**.[3] Thus, the average cost of producing the

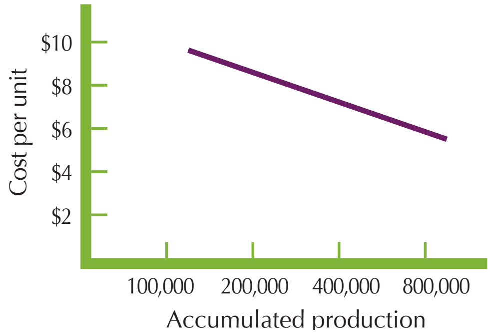

FIGURE 10.4
Cost per unit as a function of accumulated production: The experience curve

first 100,000 calculators is $10 per calculator. When the company has produced the first 200,000 calculators, the average cost falls to $9. After its accumulated production experience doubles again to 400,000, the average cost is $7. This drop in the average cost with accumulated production experience is called the **experience curve** (or the **learning curve**).

If a downward-sloping experience curve exists, this would be highly significant for the company. Not only will the company's unit production cost fall, but it will fall faster if the company makes and sells more during a given time period. And to take advantage of the experience curve, Casio must get a large market share early in the product's life cycle. This suggests the following pricing strategy: Casio should price its calculators low; its sales will then increase, and its costs will decrease through gaining more experience, and then it can lower its prices further.

Some companies have built successful strategies around the experience curve. However, experience-curve pricing carries some major risks. The aggressive pricing might give the product a cheap image. The strategy also assumes that competitors are weak and not willing to fight it out by meeting the company's price cuts. Finally, while the company is building volume under one technology, a competitor may find a lower-cost technology that lets it start at prices lower than those of the market leader, who still operates on the old experience curve.

Experience curve (or learning curve)
The drop in the average per-unit production cost that comes with accumulated production experience.

Cost-Plus Pricing

The simplest pricing method is **cost-plus pricing** (or **markup pricing**)—adding a standard markup to the cost of the product. Construction companies, for example, submit job bids by estimating the total project cost and adding a standard markup for profit. Lawyers, accountants, and other professionals typically price by adding a standard markup to their costs. Some sellers tell their customers they will charge cost plus a specified markup; for example, aerospace companies price this way to the government.

Cost-plus pricing (or markup pricing)
Adding a standard markup to the cost of the product.

To illustrate markup pricing, suppose a toaster manufacturer had the following costs and expected sales:

Variable cost	$10
Fixed costs	$300,000
Expected unit sales	50,000

Then the manufacturer's cost per toaster is given by:

$$\text{Unit Cost} = \text{Variable Cost} + \frac{\text{Fixed Costs}}{\text{Unit Sales}} = \$10 + \frac{\$300{,}000}{50{,}000} = \$16$$

Now suppose the manufacturer wants to earn a 20 percent markup on sales. The manufacturer's markup price is given by:[4]

$$\text{Markup Price} = \frac{\text{Unit Cost}}{(1 - \text{Desired Return on Sales})} = \frac{\$16}{1 - .2} = \$20$$

The manufacturer would charge dealers $20 per toaster and make a profit of $4 per unit. The dealers, in turn, will mark up the toaster. If dealers want to earn 50 percent on the sales price, they will mark up the toaster to $40 ($20 + 50% of $40). This number is equivalent to a *markup on cost* of 100 percent ($20/$20).

Generally, using standard markups to set prices does not make sense. Any pricing method that ignores demand and competitor prices is not likely to lead to the best price. Still, markup pricing remains popular for many reasons. First, sellers are more certain about costs than about demand. By tying the price to cost, sellers simplify pricing—they do not have to make frequent adjustments as demand changes. Second, when all firms in the industry use this pricing method, prices tend to be similar and price competition is thus minimized. Third, many people feel that cost-plus pricing is fairer to both buyers and sellers. Sellers earn a fair return on their investment but do not take advantage of buyers when buyers' demand becomes great.

Break-even pricing (or target profit pricing)
Setting prices to break even on the costs of making and marketing a product, or setting prices to make a target profit.

Break-Even Analysis and Target Profit Pricing

Another cost-oriented pricing approach is **break-even pricing** (or a variation called **target profit pricing**). The firm tries to determine the price at which it will break even or make the target profit it is seeking. This pricing method is used by public utilities, which are constrained to make a fair return on their investment.

Target pricing uses the concept of a *break-even chart*, which shows the total cost and total revenue expected at different sales volume levels. **Figure 10.5** shows a break-even chart for the toaster manufacturer discussed here. Fixed costs are $300,000 regardless of sales volume. Variable costs are added to fixed costs to form total costs, which rise with volume. The total revenue curve starts at zero and rises with each unit sold. The slope of the total revenue curve reflects the price of $20 per unit.

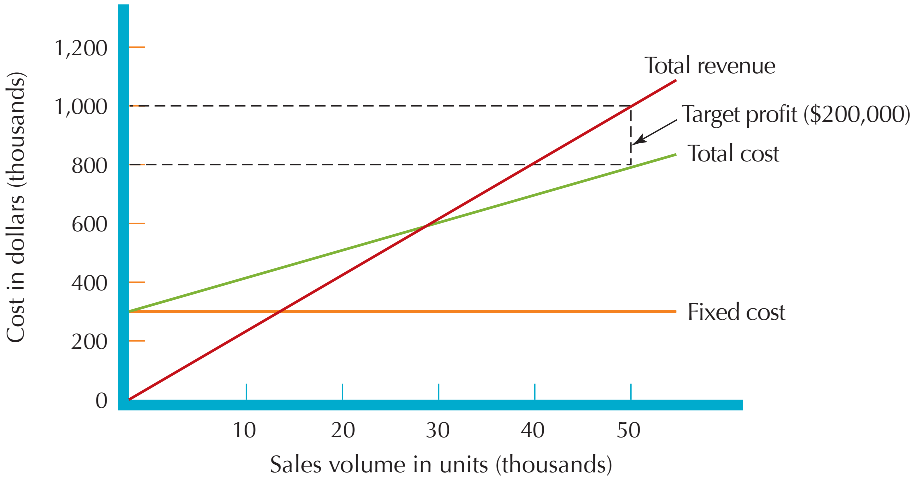

FIGURE 10.5
Break-even chart for determining target-profit price and break-even volume

The total revenue and total cost curves cross at 30,000 units. This is the *break-even volume*. At $20, the company must sell at least 30,000 units to break even; that is, for total revenue to cover total cost. Break-even volume can be calculated using the following formula:

$$\text{Break-Even Volume} = \frac{\text{Unit Cost}}{\text{Price} - \text{Variable Cost}} = \frac{\$300{,}000}{\$20 - \$10} = 30{,}000$$

If the company wants to make a target profit, it must sell more than 30,000 units at $20 each. Suppose the toaster manufacturer has invested $1,000,000 in the business and wants to set the price to earn a 20 percent return, or $200,000. In that case, it must sell at least 50,000 units at $20 each. If the company charges a higher price, it will not need to sell as many toasters to achieve its target return. But the market may not buy even this lower volume at the higher price. Much depends on the price elasticity and competitors' prices.

The manufacturer should consider different prices and estimate break-even volumes, probable demand, and profits for each. This is done in **Table 10.1**. The table shows that as price increases, break-even volume drops (column 2). But as price increases, demand for the toasters also falls (column 3). At the $14 price, because the manufacturer clears only $4 per toaster ($14 less $10 in variable costs), it must sell a very high volume to break even. Even though the low price attracts many buyers, demand still falls below the high break-even point, and the manufacturer loses money. At the other extreme, with a $22 price, the manufacturer clears $12 per toaster and must sell only 25,000 units to break even. But at this high price, consumers buy too few toasters, and profits are negative. The table shows that a price of $18 yields the highest profits. Note that none of the prices produce the manufacturer's target profit of $200,000. To achieve this target return, the manufacturer will need to search for ways to lower fixed or variable costs, thus lowering the break-even volume.

TABLE 10.1 Break-Even Volume and Profits at Different Prices

(1) Price	(2) Unit Demand Needed to Break Even	(3) Expected Unit Demand at Given Price	(4) Total Revenue (1) × (3)	(5) Total Costs*	(6) Profit (4) – (5)
$14	75,000	71,000	$994,000	$1,010,000	–$16,000
$16	50,000	67,000	$1,072,000	$970,000	$102,000
$18	37,500	60,000	$1,080,000	$900,000	$180,000
$20	30,000	42,000	$840,000	$720,000	$120,000
$22	25,000	23,000	$506,000	$530,000	–$24,000

* Assumes fixed costs of $300,000 and constant unit variable costs of $10.

Competition-Based Pricing

Competition-based pricing involves setting prices based on competitors' strategies, costs, prices, and market offerings. Consumers will base their judgments of a product's value on the prices that competitors charge for similar products. A consumer who is thinking about buying a Canon digital camera will evaluate Canon's customer value and price against the value and prices of comparable products made by Nikon, Sony, and others.

Competition-based pricing
Setting prices based on competitors' strategies, costs, prices, and market offerings.

In addition, the company's pricing strategy may affect the nature of the competition it faces. If Canon follows a high-price, high-margin strategy, it may attract competition. A low-price, low-margin strategy, however, may stop competitors or drive them out of the market. Canon needs to benchmark its costs and value against competitors' costs and value. It can then use these benchmarks as a starting point for its own pricing.

In assessing competitors' pricing strategies, the company should ask several questions.

- *How does the company's market offering compare with competitors' offerings in terms of customer value?* If consumers perceive that the company's product or service provides greater value, the company can charge a higher price. If consumers perceive less value relative to competing products, the company must either charge a lower price or change customer perceptions to justify a higher price.
- *How strong are current competitors, and what are their current pricing strategies?* If the company faces a host of smaller competitors charging high prices relative to the value they deliver, it might charge lower prices to drive weaker competitors out of the market. If the market is dominated by larger, low-price competitors, the company may decide to target unserved market niches with value-added products at higher prices. For example, if a local independent travel agency isn't likely to win a price war against online travel agency zuji.com, it would be wiser for it to add special customer services and personal touches that justify its higher prices and margins.

- *How does the competitive landscape influence customer price sensitivity?*[5] For example, customers will be more price-sensitive if they see few differences between competing products. They will buy whichever product costs the least. The more information customers have about competing products and prices before buying, the more price-sensitive they will be. Easy product comparisons help customers to assess the value of different options and to decide what prices they are willing to pay. Finally, customers will be more price-sensitive if they can switch easily from one product alternative to another.

What principle should guide decisions about what price to charge relative to those of competitors? The answer is simple in concept but often difficult in practice: No matter what price you charge—high, low, or in between—be certain to give customers superior value for that price.

Other Internal and External Considerations Affecting Price Decisions

Customer perceptions of value set the upper limit for prices, and costs set the lower limit. However, in setting prices within these limits, the company must consider a number of other internal and external factors. As shown in Figure 10.1, internal factors affecting pricing include the company's overall marketing strategy, objectives, and marketing mix, as well as other organizational considerations. External factors include the nature of the market and demand, competitors' strategies and prices, and other environmental factors.

Overall Marketing Strategy, Objectives, and Mix

Price is only one element of the company's broader marketing strategy. Thus, before setting price, the company must decide on its overall marketing strategy for the product or service. If the company has selected its target market and positioning carefully, then its marketing mix strategy, including price, will be fairly straightforward. For example, when Toyota developed its Lexus brand to compete with European luxury-performance cars in the higher-income segment, it charged a high price. In contrast, when it introduced its Yaris model—"the car that you can afford to drive is finally the car you actually want to drive"—this positioning required charging a low price. Thus, pricing strategy is largely determined by decisions on market positioning (see **Real Marketing 10.1**).

› Compared to the Lexus where a luxury-performance positioning required a high price be charged, Toyota positioned Yaris as an affordable car that you actually want to drive.

Pricing may play an important role in helping to accomplish company objectives at many levels (see **Figure 10.6**). A firm can set prices to attract new customers or to profitably retain existing ones.

FIGURE 10.6
Pricing objectives

It can set prices low to prevent competition from entering the market or set prices at competitors' levels to stabilize the market. It can price to keep the loyalty and support of resellers or to avoid government intervention. Prices can be reduced temporarily to create excitement for a brand. Or one product may be priced to help the sales of other products in the company's line. Thus, pricing plays an important role in helping to accomplish the company's objectives at many levels.

Price is only one of the marketing mix tools that a company can use to achieve its marketing objectives. Price decisions must be coordinated with product design, distribution, and promotion decisions to form a consistent and effective integrated marketing program. For example, to turn around its troubled hypermarket business and regain market share, Carrefour cut prices of 4,500 SKUs by around 10 percent. It also launched a discounted private label range and aimed to better serve shoppers through promotions and merchandise tailored for individual stores or regions. Underperforming hypermarkets were retooled and made smaller.[6] Decisions made for other marketing mix variables may affect pricing decisions. For example, a decision to position the product on high performance quality will mean that the seller must charge a higher price to cover higher costs. And producers whose resellers are expected to support and promote their products may have to build larger reseller margins into their prices.

Companies often position their products on price and then tailor other marketing mix decisions to the prices they want to charge. Here, price is a crucial product-positioning factor that defines the product's market, competition, and design. Many firms support such price-positioning strategies with a technique called **target costing**, a potent strategic weapon (see **Figure 10.7**). Target costing reverses the usual process of first designing a new product, determining its cost, and then asking, "Can we sell it for that?" Instead, it starts with an ideal selling price based on customer-value considerations and then targets costs that will ensure that the price is met. For example, when Honda set out to design the Fit, it began with a $13,950 starting price point and a 15 kilometers per liter operating efficiency as its goals. It then designed a stylish, peppy little car with costs that allowed it to give target customers those values.

Positioning on high price – Porsche proudly advertises its curvaceous Cayman as "Starting at $49,400."

Target costing
Pricing that starts with an ideal selling price and then targets costs that will ensure that the price is met.

FIGURE 10.7
Target costing

Real Marketing 10.1

Xiaomi: The Little Rice that Could

In 2014, Xiaomi entered the second largest smartphone market in the world—India and concluded the year with a market share of 1.5 percent. In 2015, while Xiaomi had managed to double its market share, it was still a small player in the country. However, the Chinese smartphone manufacturer Xiaomi, which means "Little Rice" in Chinese, has persevered to become one of the largest smartphone vendors in the country. What makes this achievement even more remarkable is that, until recently, the company's phones were available only online in a country where less than 20 percent of its population has Internet access. Offline sales channels are still the dominant means in India for customers to buy products.

Unlike most countries where telecommunications operators subsidize the purchase of smartphones when a customer enters into a contract, most phones in India are sold contract-free and, therefore, customers have to pay a full price for them.

In 2014, Xiaomi launched its Mi3 in India, which was an instant success mainly due to its pricing. The Mi3 had specifications that were comparable to Samsung Galaxy S5, Sony Xperia Z3, and LG G3. However, Mi3 was priced a mere one-third compared to its better known competitors. Selling online also helps Xiaomi to cut costs.

In India, where people have been known to spend several months of their salary to buy a phone, the Mi3's bargain price was a definite draw despite Xiaomi being a relatively unknown brand. Its unique selling proposition of "great specifications at an affordable price" was appealing. Xiaomi quickly followed this success with the launch of the Redmi1S and the RedmiNote. Its affordable pricing overcame both structural and cultural barriers. Indian consumers were motivated to buy the phones online. Xiaomi partnered with FlipKart, India's largest e-commerce store. This partnership gave confidence to the Indian consumers that the brand is trustworthy.

Other Chinese smartphone brands such as Huawei had entered India by spending a lot on celebrity endorsements—an all too common strategy given the popularity of Bollywood starlets. Pepsi and Coca-Cola are well known for their use of Bollywood celebrities to boost sales. Xiaomi did not engage in celebrity endorsement.

However, subsequent launches of the Redmi2 and the Mi4 received mixed reviews. Indian consumers have been accustomed to Xiaomi's low pricing. Hence, when Redmi2 was launched at $100, it raised eyebrows with regard to its value proposition.

In April 2015, Xiaomi launched what it called its flagship phone tailored for Indians—the Mi4i. Its value proposition was reinforced with Xiaomi's decision to sell the phone for 12,999 rupees ($205), which is one-fourth the price tag of a 16GB iPhone6. It comes with features customized for the Indian market. It has an automatic photo-retouching setting for selfies, called "beautify." This feature does not enlarge eyes like it does for the Chinese market, which craves for big eyes, but the feature allows users to smooth wrinkles and lighten skin tone in photographs, something that is a common demand in the Indian market. It was clear that the pricing and value proposition had hit a sweet spot as more than 10,000 Indians applied for the 1,600 tickets available to watch Xiaomi executives present the Mi4i. Audiences at the event commented on the remarkable low price, speculated on how the company earns a profit and whether this would lead to the fall of Apple in India.

As Xiaomi strives to be Number 1 in India, it has to tweak its distribution strategy as well. To reach out to more consumers, it has increased its brick-and-mortar presence by selling through retail chains like The Mobile Store. It also expanded its online sales channels to include Snapdeal and Amazon.

Xiaomi's success has not gone unnoticed. Its Chinese competitor, Huawei, went on the offensive a few days after Xiaomi announced the Mi4i. Huawei tweeted #iWasWrong, implying that its Honor4X smartphone is better than the Mi4i. The hashtag was used as a reference to Xiaomi's use of all things "i."

Huawei also took out an ad comparing its Honor to the Mi4i smartphone with the conclusion that Xiaomi is inferior.

Xiaomi also got the attention of Indian tycoon, Ratan Tata, chairman emeritus of Tata Sons, a conglomerate of over 100 businesses including Tata Motors and Indian Hotels. He invested an undisclosed amount in Xiaomi, which is likely to open doors for Xiaomi as it expands in the Indian subcontinent.

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› Nonprice Positioning – Luxury smartphone maker Vertu puts very high value into its products and charges premium prices to match that value. Average price: nearly $6,000.

Other companies de-emphasize price and use other marketing mix tools to create *non-price* positions. Often, the best strategy is not to charge the lowest price, but to differentiate the marketing offer to make it worth a higher price. For example, luxury smartphone-maker Vertu puts very high value into its products and charges premium prices to match that value. Vertu phones are made from high-end materials such as titanium and sapphire crystal, and each phone is hand-assembled by a single craftsman in England. Phones come with additional services such as Vertu Concierge, which helps create personal, curated user experiences and recommendations. Vertu phones sell for an average price of $6,000, with top models going for more than $10,000. However, target customers recognize Vertu's high quality and are willing to pay more for it. Some marketers even *feature* high prices as part of their product's allure. For example, Grand Marnier offers a $225 bottle of Cuvée du Cent Cinquantenaire that's marketed with the tagline "Hard to find, impossible to pronounce, and prohibitively expensive."

Organizational Considerations

In small companies, prices are often set by top management rather than by the marketing or sales departments. In large companies, pricing is typically handled by divisional or product line managers. In industrial markets, salespeople may be allowed to negotiate with customers within certain price ranges. Even so, top management sets the pricing objectives and policies, and it often approves the prices proposed by lower level management or salespeople.

In industries in which pricing is a key factor (airlines, steel, railroads, oil companies), companies often have pricing departments to set the best prices or to help others in setting them.

The Market and Demand

Both consumer and industrial buyers balance the price of a product or service against the benefits of owning it. Thus, before setting prices, the marketer must understand the relationship between price and demand for its product.

Pricing in Different Types of Markets

There are four types of markets, each of which presents a different pricing challenge.

- *Pure competition.* This market consists of many buyers and sellers trading in a uniform commodity such as wheat, copper, or financial securities. No single buyer or seller has much effect on the going market price. A seller cannot charge more than the going price because buyers can obtain as much as they need at the going price. Nor would sellers charge less than the market price, because they can sell all they want at this price. If price and profits rise, new sellers can easily enter the market. In a purely competitive market, marketing research, product development, pricing, advertising, and sales promotion play little or no role. Thus, sellers in these markets do not spend much time on marketing strategy.
- *Monopolistic competition.* This market consists of many buyers and sellers who trade over a range of prices rather than a single market price. A range of prices occurs because sellers can differentiate their offers to buyers. Either the physical product can be varied in quality, features, or

› Differentiated offers – L'Oréal differentiates its cosmetics from other brands through strong branding and advertising. It uses celebrities to enhance its image and reduce the impact of price.

style, or the accompanying services can be varied. Buyers see differences in sellers' products and will pay different prices for them. Sellers try to develop differentiated offers for different customer segments and, in addition to price, freely use branding, advertising, and personal selling to set their offers apart. Thus, L'Oréal differentiates its cosmetics from dozens of other brands through strong branding and advertising, reducing the impact of price. Because there are many competitors in such markets, each firm is less affected by competitors' pricing strategies than in oligopolistic markets.

- *Oligopolistic competition*. This market consists of a few sellers who are highly sensitive to each other's pricing and marketing strategies. There are few sellers because it is difficult for new sellers to enter the market. Each seller is alert to competitors' strategies and moves. If VISA slashes its price by 10 percent, buyers will quickly switch to this supplier. The other credit card companies must respond by lowering their prices or increasing their services.
- *Pure monopoly*. This market consists of one seller. The seller may be a government monopoly (the postal service), a private regulated monopoly (a power company), or a private non-regulated monopoly (DuPont when it introduced nylon). Pricing is handled differently in each case. In a regulated monopoly, the government permits the company to set rates that will yield a "fair return." Non-regulated monopolies are free to price at what the market will bear. However, they do not always charge the full price for a number of reasons: a desire not to attract competition, a desire to penetrate the market faster with a low price, or a fear of government regulation.

Analyzing the Price–Demand Relationship

Each price charged leads to a different level of demand. The relationship between the price charged and the resulting demand level is shown in the **demand curve** in **Figure 10.8**. The demand curve shows the number of units the market will buy in a given time period at different prices that might be charged. In the normal case, demand and price are inversely related; that is, the higher the price, the lower the demand. Thus, the company would sell less if it raised its price from P_1 to P_2. In short, consumers with limited budgets probably will buy less of something if its price is too high.

Demand curve
A curve that shows the number of units the market will buy in a given time period, at different prices that might be charged.

Most companies try to measure their demand curves by estimating demand at different prices. The type of market makes a difference. In a monopoly, the demand curve shows the total market demand resulting from different prices. If the company faces competition, its demand at different prices will depend on whether competitors' prices stay constant or change with the company's own prices.

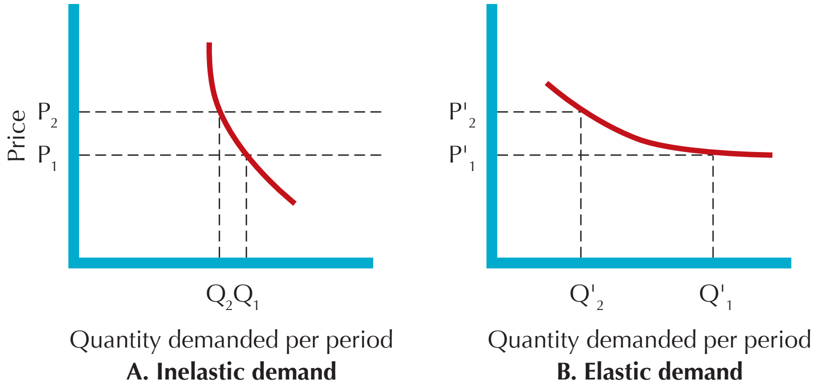

FIGURE 10.8
Demand curves

Price elasticity
A measure of the sensitivity of demand to changes in price.

Price Elasticity of Demand

Marketers also need to know **price elasticity**—how responsive demand will be to a change in price. If demand hardly changes with a small change in price, we say the demand is *inelastic*. If demand changes greatly, we say the demand is *elastic*.

If demand is elastic rather than inelastic, sellers will consider lowering their prices. A lower price will produce more total revenue. This practice makes sense as long as the extra costs of producing and selling more do not exceed the extra revenue. At the same time, most firms want to avoid pricing that turns their products into commodities. Instant price comparisons afforded by the Internet and other technologies have increased consumer price sensitivity, turning products ranging from telephones and computers to new automobiles into commodities in consumers' eyes. Marketers need to work harder than ever to differentiate their offerings when a dozen competitors are selling virtually the same product at a comparable or lower price. Online travel agency zuji.com takes it one step further in allowing consumers to compare price points in airfares, by also offering "dynamically packaged" trips where travellers can customize various components according to their personal needs and budget.

Other External Factors

When setting prices, the company must also consider a number of other factors in its external environment. *Economic conditions* can have a strong impact on the firm's pricing strategies. Economic factors such as boom or recession, inflation, and interest rates affect pricing decisions because they affect both consumer perceptions of the product's price and value and the costs of producing a product. Consider Japan:

Seiyu – Not long ago, the Japanese bought so many $100 melons and $1,000 handbags that it was the only country in the world where luxury goods were considered mass market. However, a long-drawn recession has turned them into Wal-Mart shoppers. Wal-Mart's supermarket subsidiary Seiyu had never been profitable until. Seiyu ignited a price war with its *bento* lunch-in-a-box offer of rice and grilled salmon for 298 yen. Abandoning a custom for supermarkets to make their *bento* boxes on site, Seiyu cut costs by assembling the lunches at a centralized factory. Seiyu bet that Japan's frugal consumers would not care about the change, as long as the *bentos* were cheap. It was right: the *bentos* have set off a line of imitation supermarket *bentos*.[7]

The recession led Seiyu to introduce affordable *bento* boxes for lunch, sparking a price war.

The company must also consider what impact its prices will have on other parties in its environment. How will *resellers* react to various prices? The company should set prices that give resellers a fair profit, encourage their support, and help them to sell the product effectively. The *government* is another important external influence on pricing decisions. Finally, *social concerns* may have to be taken into account. In setting prices, a company's short-term sales, market share, and profit goals may have to be tempered by broader societal considerations.

Reviewing Objectives and Key Terms

Companies today face a fierce and fast-changing pricing environment. Firms successful at creating customer value with the other marketing mix activities must still capture some of this value in the prices they earn. This chapter examined the importance of pricing, general pricing strategies, and the internal and external considerations that affect pricing decisions.

OBJECTIVE 1 Answer the question "What is a price?" and discuss the importance of pricing in today's fast-changing environment. (pp. 319–320)

Price can be defined narrowly as the amount of money charged for a product or service. Or it can be defined more broadly as the sum of the values that consumers exchange for the benefits of having and using the product or service. The pricing challenge is to find the price that will let the company make a fair profit by getting paid for the customer value it creates.

Despite the increased role of non-price factors in the modern marketing process, price remains an important element in the marketing mix. It is the only marketing mix element that produces revenue; all other elements represent costs. More importantly, as a part of a company's overall value proposition, price plays a key role in creating customer value and building customer relationships. Smart managers treat pricing as a key strategic tool for creating and capturing customer value.

OBJECTIVE 2 Identify the three major pricing strategies and discuss the importance of understanding customer-value perceptions, company costs, and competitor strategies when setting prices. (pp. 320–328)

Companies can choose from three major pricing strategies: customer value–based pricing, cost-based pricing, and competition-based pricing. *Customer value-based pricing* uses buyers' perceptions of value as the basis for setting prices. Good pricing begins with a complete understanding of the value that a product or service creates for customers and setting a price that captures such value. Customer perceptions of the product's value set the ceiling for prices. If customers perceive such a product's price is greater than its value, they will not buy the product.

Companies can pursue either of two types of value-based pricing. *Good-value pricing* involves offering just the right combination of quality and good service at a fair price. EDLP is an example of this strategy. *Value-added pricing* involves attaching value-added features and services to differentiate the company's offers and support charging higher prices.

Cost-based pricing involves setting prices based on the costs of producing, distributing, and selling products plus a fair rate of return for effort and risk. Company and product costs are an important consideration in setting prices. Whereas customer-value perceptions set the price ceiling, costs set the floor for pricing. However, cost-based pricing is product-driven rather than customer-driven. The company designs what it considers to be a good product and sets a price that covers costs plus a target profit. If the price turns out to be too high, the company must settle for lower markups or lower sales, both resulting in disappointing profits. If the company prices the product below its costs, its profits will also suffer. Cost-based pricing approaches include *cost-plus pricing* and *break-even pricing* (or target profit pricing).

Competition-based pricing involves setting prices based on competitors' strategies, costs, prices, and market offerings. Consumers base their judgments of a product's value on the prices that competitors charge for similar products. If consumers perceive that the company's product or service provides greater value, the company can charge a higher price. If consumers perceive less value relative to competing products, the company must either charge a lower price or change customer perceptions to justify a higher price.

OBJECTIVE 3 Identify and define the other important internal and external factors affecting a firm's pricing decisions. (pp. 328–334)

Other *internal* factors that influence pricing decisions include the company's overall marketing strategy, objectives, and marketing mix, as well as organizational considerations. Price is only one element of the company's broader marketing strategy. If the company has selected its target market and positioning carefully, then its marketing mix strategy, including price, will be fairly straightforward. Some companies position their products on price and then tailor other marketing mix decisions to the prices they want to charge. Other companies de-emphasize price and use other marketing mix tools to create *non-price* positions.

Other *external* pricing considerations include the nature of the market and demand and environmental factors such as the economy, reseller needs, and government actions. The seller's pricing freedom varies with different types of markets. Ultimately, the customer decides whether the company has set the right price. The customer weighs price against the perceived values of using the product: If the price exceeds the sum of the values, consumers will not buy. So the company must understand concepts such as demand curves (the price–demand relationship) and price elasticity (consumer sensitivity to prices).

Economic conditions can also have a major impact on pricing decisions. The Great Recession caused consumers to rethink the price–value equation. Marketers have responded by increasing their emphasis on value-for-money pricing strategies. Even in tough economic times, however, consumers do not buy based on prices alone. Thus, no matter what price they charge—low or high—companies need to offer superior value for money.

Key Terms

OBJECTIVE 1
Price (p 319)

OBJECTIVE 2
Customer value–based pricing (p 321)
Good-value pricing (p 322)
Value-added pricing (p 322)

OBJECTIVE 3
Cost-based pricing (p 323)
Fixed costs (or overhead) (p 323)
Variable costs (p 323)
Total costs (p 323)
Experience curve (or learning curve) (p 325)
Cost-plus pricing (or markup pricing) (p 325)
Break-even pricing (or target profit pricing) (p 326)
Competition-based pricing (p 327)
Target costing (p 329)
Demand curve (p 333)
Price elasticity (p 334)

Discussing the Concepts

1. What factors must marketers consider when setting prices? (AACSB: Communication)
2. Name and describe the two types of value-based pricing methods. (AACSB: Communication)
3. Describe the types of cost-based pricing and the methods of implementing each. (AACSB: Communication)
4. What is *target costing* and how is it different from the usual process of setting prices? (AACSB: Communication)
5. Discuss the impact of the economy on a company's pricing strategies. (AACSB: Communication)
6. Name and describe the four types of markets recognized by economists and discuss the pricing challenges posed by each. (AACSB: Communication)

Applying the Concepts

1. In a small group, discuss your perceptions of value and how much you are willing to pay for the following products: automobiles, meals at a food court, jeans, and athletic shoes. Are there differences among members of your group? Explain why those differences exist. Discuss some examples of brands of these products that are positioned to deliver different value to consumers.
(AACSB: Communication; Reflective Thinking)
2. Suppose you are thinking of buying some KIT KAT for your family. However, the price has gone up by 25 percent. Would you still buy them? Based on your response, what do you think is your price elasticity for KIT KAT? Explain what price elasticities of 0.5 and 2.4 mean. (*Note*: These are absolute values, as price elasticity is usually negative.)
(AACSB: Communication; Reflective Thinking)
3. In a small group, determine the costs associated with offering an online undergraduate business degree in addition to a traditional business degree at a university. Which costs are fixed and which are variable? Determine the tuition fees (that is, price) to charge for a three-credit course in this degree program. Which pricing method is your group using to determine the price?
(AACSB: Communication; Reflective Thinking)

Focus on Technology

Would you shop around for the best price on a medical procedure? Most patients do not know the price of a medical procedure, and many might not care because they think insurance will cover it. But that is not always the case. Many patients are paying out of their own pockets for their health care. However, health-care costs and doctors' prices are now more transparent thanks to the Internet. Several Web sites arm patients with cost information, and others allow them to make price comparisons in their areas. They might even get a coupon for a price reduction from a participating provider.

1. Go to www.outofpocket.com/OOP/Default.aspx to determine the average cost for a colonoscopy.Using a source such as www.newchoicehealth.com, determine the cost for a colonoscopy in your city and in a nearby city. Who are the most and least expensive providers in each city? Are prices comparable to the national average? Why are there differences or similarities in the range of prices for the two cities? (AACSB: Communication; Use of IT; Reflective Thinking)
2. Health-care providers offer price deals through these types of Web sites. Debate the likelihood of consumers taking advantage of Internet price discounts for medical care. (AACSB: Communication; Reflective Thinking)

Focus on Ethics

Consumers love to play games on their mobile devices, and Japanese consumers seem to be the most passionate. Mobile game publishers in Japan have mastered the art of getting as much revenue as possible from players. The makers of Puzzle & Dragons have seemingly cracked the revenue code by using the psychology of mobile payments to squeeze more revenue from players by encouraging them to play longer. One Puzzle & Dragons secret was to issue its own virtual currency, called magic stones, so consumers don't feel like they are spending real money for chances to enhance play. Then, the game offers a little reward at the end with a reminder of what is lost if the player doesn't take the offer. Limited-time sales offer monsters to use in battle for just a few magic stones, and if players run out of space, the game reminds them they will lose their monsters if they don't purchase more space. All the while, mathematicians and statisticians work behind the scenes to track game play and make it easier or more challenging to keep players engaged and spending. One expert called Puzzle & Dragons "truly diabolical" in convincing players to pay and play more. These and other game producers' tactics have propelled Japan's game industry to succeed.

1. Is it ethical for game producers to use game playing data to encourage consumers to spend more? Explain why or why not. (AACSB: Communication; Ethical Reasoning)
2. Is this similar to the "freemium" model used by many U.S. game producers? Explain this model and discuss examples of games that use this model. (AACSB: Communication; Reflective Thinking; Ethical Reasoning)

Marketing & the Economy

Colgate-Palmolive

As the uncertain economy has made people more aware of their spending, many companies have slashed prices on their products and services. Still other companies successfully held prices steady, selling as much or more than they did before the economic bottom fell out. But Colgate-Palmolive is one of the fortunate few that have actually been able to *increase* prices during this more frugal era and reap benefits from doing so. Think about it—how grim would your budget have to get before you'd stop brushing your teeth or taking a shower? Economic conditions have relatively little impact on people's basic personal care habits, and brand preferences are deeply ingrained for these necessities. Based on an accurate evaluation of customer buying habits, Colgate-Palmolive raised prices by an average of 7.5 percent without experiencing any dip in sales. Higher prices and stable volumes equal—cha-ching—higher profits. Indeed, Colgate-Palmolive saw its profits rise by 20 percent in 2008 and 17 percent in 2009, during the heart of the recent recession. It seems as though looking and smelling clean might just be recession-proof concepts.

1. Does the success of Colgate-Palmolive's price increases have anything to do with the economy?
2. In the longer term, as the economy recovers, what should Colgate-Palmolive anticipate in the wake of its price increases?

Marketing by the Numbers

One external factor that manufacturers must consider when setting prices is reseller margins. Manufacturers do not have the final say concerning the price to consumers; retailers do. So manufacturers must start with their suggested retail prices and work back, subtracting the markups required by resellers that sell the product to consumers. Once that is considered, and manufacturers know what price to sell their products to resellers at, they can then determine what volume they must sell to break even at that price and cost combination. To answer the following questions, refer to Appendix 2.

1. A consumer purchases a computer for $800 from a retailer. If the retailer's markup is 30 percent and the wholesaler's markup is 10 percent, both based on their respective selling prices, at what price does the manufacturer sell the product to the wholesaler? (AACSB: Communication; Analytical Reasoning)
2. If the unit variable cost for each computer is $350 and the manufacturer has fixed costs totaling $2 million, how many computers must this manufacturer sell to break even? How many must it sell to realize a profit of $50 million? (AACSB: Communication; Analytical Reasoning)

Video Case

IKEA

Lots of companies have idealistic missions. But IKEA's vision, "To create a better everyday life for the many people," seems somewhat implausible. How can a company that makes furniture improve everyday life for the masses? Interestingly, the most important part of that strategy is price. For every product that it designs, from leather sofas to plastic mugs, IKEA starts with a target price. The target price is one that's deemed affordable, making the product accessible to the masses.

Only then does IKEA begin the grueling process of creating a high-quality, stylish, and innovative product that can be delivered to the customer for that target price. As IKEA points out, anyone can make high-quality goods for a high price or poor-quality goods for a low price. The real challenge is making high-quality products at a low price. To do so requires a relentless focus on costs combined with a thirst for innovation. That has been IKEA's quest for more than 65 years.

After viewing the video featuring IKEA, answer the following questions about the company's pricing strategy:

1. What is IKEA's promise of value?
2. Referring to the Klippan sofa, illustrate how IKEA delivers its promise of value to consumers.
3. Based on the concepts from the text, does IKEA employ a value-based pricing approach or a cost-based pricing approach? Support your answer.

Company Case

Tata Nano: The People's Car or World's Cheapest Car?

Ratan Tata, Chairman emeritus of the Tata Sons Group, was traveling in his car one rainy day in Bangalore. He spotted a family of four on a scooter—a father driving with his young son standing precariously in front of him, and his wife seated behind him with their baby grasped close to her chest. This, Ratan Tata observed, was a common scene on Indian roads. Thinking about the danger that such two-wheel drives posed to nuclear families, he planned to develop a safe, affordable, all-weather car for the millions of Indians… a "people's car." Tata had also decided that the car would cost 1 lakh ($1483.45), a figure which in 2008 was midway between the price of the cheapest car and the price of a two-wheel motorbike. It was then labelled as the "world's cheapest car."

The target groups aren't existing passenger-car owners, but the millions of Indian families that depend on scooters or other two-wheelers for their daily transportation. The Nano (meaning "small" in Gujarati), as the car is to be called, was designed to offer safe, comfortable, and reliable mobility that is also economical.

To achieve this, Tata Motors refined the manufacturing process with innovation and new design. There were certain factors that could not be compromised even though doing so will reduce costs. For instance, making the Nano a two-door car could achieve substantial cost savings. However, doing so would make access to the rear seats challenging and inconvenient especially to the typical multi-generational Indian families. Therefore, the two-door design was not adopted.

To meet its low price target, the Nano's trunk does not open. Instead, the rear seats can be folded down to access the boot. It has a single windscreen wiper instead of the usual pair. It has no power steering. It has manually operated side windows and makes use of plastic and glue instead of welded steel. The base model has three lug nuts on the wheels instead of the usual four, only one side-view mirror, and no air-conditioning and airbags. It has fixed seats, except for the driver's, which is adjustable.

To lower the cost to users, Tata Motors also lowered the total cost of ownership of the Nano both in terms of the upfront purchase price as well as the monthly fixed expenses and operating expenses such as after-sales services and maintenance, and interest repayments on loans. Cheap financing services with major Indian banks were arranged. People buying the Nano could pay as little as 2,999 rupees ($59) and finance the rest at a lower interest rate than that of other four-wheelers.

Tata's research team conducted a study and calculated the total cost of ownership based on total investment, monthly repayments over 36 months, and monthly fixed and operating expenses, assuming usage of 1,250 kilometers per month. When compared to a range of alternatives, The Nano was among the most affordable options not only against other small and compact cars but also three-wheelers and motorcycles in India.

In the months prior to the launch of the Nano, used-car sales in India fell and the price of a used car of its nearest competitor, Maruti 800, dropped by 30 percent. People were withholding car purchase in anticipation of the Nano. However, the Nano was plagued with production delays. Launched in 2009, it got off with a shaky start. The press criticized its safety and emissions standards when there were some reported cases of the Nano catching fire. It was priced at 137,555 rupees, a significant increase from the initial 100,000 rupees.

The 200,000 bookings that the Nano received during its launch belied underlying misalignments. Response was unexpectedly greater in metropolitan centers than smaller towns, which were widely perceived to be a market for the Nano. Tiers 2 and 3 towns accounted for only 30 percent of total bookings.

Typical two-wheeler owners were reluctant to walk into a large car showroom because the "people's car" reached out to existing car owners who were looking to buy the Nano as a second car for its cheap price. As the reputation for the Nano went from being a "people's car" to a "cheapest car," two-wheeler owners were turned off. After all, they wanted not only better mobility but also an upgrade in status. In 2010, the total sales for the Nano amounted to around 77,000 rupees ($1,142). In November 2010, when overall auto sales in India's booming economy rose more than 22 percent, Tata Motors sold only 509 Nanos.

By 2012, three years after its launch, monthly sales were a far cry from the original projection of 20,000 to 25,000 units per month. To reach out to the smaller towns, Tata Motors set up "first-class showrooms" displaying the Nano. It also tied up with hypermarket chain Big Bazaar to display the Nano in its outlets in outlying towns.

To change its image to endear itself as offering value, the Nano was repositioned to a must-have fashion item. In an upgraded model in 2012, the Nano was touted as "Tata Reboots Nano, World's Cheapest, as Coolest Small Car." By 2015, sales of the Nano remained dismal. Calendar year sales in 2013 and 2014 stood at 18,447 and 18,531 units respectively. The company cumulatively managed to sell 263,619 units of the Nano till January 2015.

Questions for Discussion

1. How do Tata Motors' marketing objectives and its marketing mix strategy affect the pricing of the Nano?
2. Discuss the factors in the Indian environment that have affected pricing decisions among car manufacturers like Tata Motors.
3. Do you think Tata Motors will be able to maintain a competitive edge based on price? What would have happened if other car manufacturers match the Nano's low price?
4. What do you think of the Nano's revised positioning as the coolest small car?

Sources

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Objective Outline

OBJECTIVE 1
Describe the major strategies for pricing new products.
New-Product Pricing Strategies (344–346)

OBJECTIVE 2
Explain how companies find a set of prices that maximizes the profits from the total product mix.
Product Mix Pricing Strategies (346–348)

OBJECTIVE 3
Discuss how companies adjust their prices to take into account different types of customers and situations.
Price-Adjustment Strategies (349–355)

OBJECTIVE 4
Discuss the key issues related to initiating and responding to price changes.
Price Changes (355–361)

OBJECTIVE 5
Overview the social and legal issues that affect pricing decisions.
Public Policy and Marketing (361–363)

Chapter

11

Pricing Products: Pricing Strategies

Previewing the Concepts

In the previous chapter, you learned the importance of pricing, and explored the factors affecting a firm's pricing decisions. In this chapter, we'll look at additional pricing considerations: new-product pricing, product mix pricing price adjustments, and price changes.

Pricing strategies vary widely. In India, companies selling fast-moving consumer goods (FMCG) are quite price conscious.

FMCGs in India: Keeping Brands Competitive

Price cutting is a strategy that many fast-moving consumer goods (FMCG) companies adopt, especially when there is high-cost inventory in an environment of declining input costs. Falling commodity prices in recent years brought good news for FMCG companies as raw materials and packaging costs declined. Given the rising incomes, increasing consumer demands, and the availability of new products, the Boston Consulting Group, a management consulting firm based in the United States, estimated that the growing middle-class population in countries like China and India is likely to incur expenses up to $10 trillion by 2020.

One area that global and local FMCG companies are investing in is health and wellness. Health and wellness is a trend that impacts consumer preferences and shopping habits and brands are paying attention. Global and Indian food and beverage brands are focusing on developing new products to cater to this trend and consumer need. According to a report by PricewaterhouseCooper and Federation of Indian Chambers of Commerce & Industry, in India nutrition products and supplements constitute a market worth rupees 145 billion to 150 billion rupees ($2.2 billion). In India, there is intense competition among FMCG companies with the big players being the Anglo-Dutch consumer group, Hindustan Unilever (HUL), and U.S.-based Procter & Gamble. These global conglomerates understand that consumers are important players in the Indian FMCG sector as each product is priced at a level that is best suited to the target consumer class for the company. Also, depending on the needs and preferences of the group of consumers, the FMCG companies offer a range of products. For example, the personal care, home care, bakery products, dairy products, processed foods are more consumed by the urban classes whereas the personal care items and fabric care are consumed more by the rural population.

In 2015, HUL fired the opening salvo by cutting the prices of its soaps and detergents by an average of 5 percent across portfolios. Lifebuoy, Lux, Surf, and Vim are some of the brands HUL carries in its soaps and

Several reasons account for the price cut. HUL wants to pass on the benefits of lower input costs to consumers.

detergents category. Several reasons account for the price cut. HUL wants to pass on the benefits of lower input costs to consumers, thus protecting and strengthening its consumer franchise. In turn, the lower prices will raise demand and improve sales volume, allowing HUL to maintain margins at reasonably profitable levels.

To engage in such price cuts, HUL had to stop sales for a few days so that it can clear the pipeline to get the new prices in the stores. Other companies have followed the trend through promotional offers instead of price cuts. Marico, which owns brands such as Parachute, Saffola, and Hair & Care, had promotional offers, but no price cuts, on its hair oil category and edible oils. This led to volume growth of 8 percent in Parachute coconut oils.[1]

As the above example illustrates, pricing decisions are subject to a complex and fascinating array of company, environmental, and competitive forces. A company sets not a single price but a *pricing structure* that covers different items in its line. This pricing structure changes over time as products move through their life cycles. The company adjusts product prices to reflect changes in costs and demand and to account for variations in buyers and situations. As the competitive environment changes, the company considers when to initiate price changes and when to respond to them.

This chapter examines the major dynamic pricing strategies available to marketers. In turn, we look at *new-product pricing strategies* for products in the introductory stage of the product life cycle, *product mix pricing strategies* for related products in the product mix, *price-adjustment strategies* that account for customer differences and changing situations, and strategies for initiating and responding to *price changes*.[2]

New-Product Pricing Strategies

Pricing strategies usually change as the product passes through its life cycle. The introductory stage is especially challenging. Companies bringing out a new product face the challenge of setting prices for the first time. They can choose between two broad strategies: *market-skimming pricing* and *market-penetration pricing* (see **Figure 11.1**).

FIGURE 11.1
New-product pricing strategies

Market-Skimming Pricing

Many companies that invent new products set high initial prices to "skim" revenues layer by layer from the market. Apple frequently uses this strategy, called **market-skimming pricing** (or **price skimming**). When Apple first introduced the iPhone, its initial price was as high as $599 per phone. The phones were purchased only by customers who really wanted the sleek new gadget and could afford to pay a high price for it. Six months later, Apple reduced the price to $399 for an 8 GB model and $499 for the 16 GB model to attract new buyers. Within a year, its prices dropped again to $199 and $299 respectively. Currently, certain models come free with a wireless phone contract. In this way, Apple skimmed the maximum amount of revenue from the various segments of the market.

Market-skimming pricing (or price skimming)
Setting a high price for a new product to skim maximum revenues layer by layer from the segments willing to pay the high price; the company makes fewer but more profitable sales.

Market skimming makes sense only under certain conditions:

- The product's quality and image must support its higher price, and enough buyers must want the product at that price.
- The costs of producing a smaller volume cannot be so high that they cancel out the advantage of charging more.
- Competitors should not be able to enter the market easily and undercut the high price.

However, sometimes companies forget. In the mid-1980s, many MNCs entered China's home appliance market with expensive products. Microwave ovens, at $300, cost more than 80 percent of an ordinary Chinese worker's annual income at that time. Similarly, earlier when foreign brands controlled the large-screen TV market, 19-inch TVs cost about 13,000 yuan, roughly three times the annual income of most Chinese. Such high-price strategies combined with a failure to monitor market trends prevented MNCs from capturing opportunities in rapidly growing mid- to low-end market segments.[3]

Market-Penetration Pricing

Rather than setting a high initial price to skim off small but profitable market segments, some companies use **market-penetration pricing**. They set a low initial price to *penetrate* the market—to attract a large number of buyers quickly and win a large market share. The high sales volume results in falling costs, allowing the company to cut its price even further.

Market-penetration pricing
Setting a low price for a new product to attract a large number of buyers and a large market share.

IKEA – When IKEA first opened its stores in China, people crowded in, not to buy home furnishing but to take advantage of the freebies—air-conditioning, clean toilets, and even decorating ideas. Chinese consumers are famously frugal. When the time came for them to actually start buying, they shopped instead at nearby local stores offering knock-offs of IKEA's designs at a

fraction of the price. To lure the finicky Chinese customers, IKEA slashed its prices in China to the lowest in the world, the opposite approach of many Western retailers there. By increasingly stocking its Chinese stores with China-made products, the retailer pushed prices of some items as low as 70 percent below prices in IKEA's outlets outside China. The penetration pricing strategy worked. IKEA captured a 43 percent market share of China's fast-growing home wares market alone. The cavernous Beijing store draws nearly 6 million visitors annually. Weekend crowds are so big that employees need to use megaphones to keep them under control.[4]

› Penetration pricing – To lure frugal Chinese customers, IKEA slashed its prices. The strategy worked. Weekend crowds at its Beijing store are so big that employees need to use megaphones to keep them under control.

Several conditions must be met for this low-price strategy to work:

- The market must be highly price-sensitive so that a low price produces more market growth.
- Production and distribution costs must fall as sales volume increases.
- The low price must help keep out the competition, and the penetration pricer must maintain its low-price position—otherwise, the price advantage may be only temporary.

Samsung – In Kenya, Nigeria, and other African countries, Samsung sold an affordable device with superior functionality, the Samsung Galaxy Pocket model. This model was sold for only $120 with no contract. The design and price was tailored to encourage millions of first-time African-buyers to trade up to smartphones from their more basic handsets. Samsung also offers a line of Pocket models in India, sold for as little as $77. Through penetration pricing, the world's largest smartphone-maker hopes to make quick and deep inroads into India's exploding mobile device market, which consists of mostly first-time users. Its penetration pricing set off a price war with Apple in India; Apple has responded in emerging markets with heavy discounts and more affordable models of its own. Its iPhones have typically sold for more than $300 in India, limiting Apple's market share in the country.[5]

› Market-penetration pricing – Samsung used low initial prices to make quick and deep inroads into emerging mobile device markets like Africa and India.

Product Mix Pricing Strategies

The strategy for setting a product's price changes when the product is part of a product mix. In this case, the firm looks for a set of prices that maximizes the profits on the total product mix. Pricing is difficult because the various products have related demand and costs and face different degrees of competition. We now take a closer look at the five product mix pricing strategies summarized in **Table 11.1**: *product line pricing*, *optional-product pricing*, *captive-product pricing*, *by-product pricing*, and *product bundle pricing*.

Product line pricing
Setting the price steps between various products in a product line based on cost differences between the products, customer evaluations of different features, and competitors' prices.

Product Line Pricing

Companies usually develop product lines rather than single products. For example, Panasonic makes a line of TVs from LCD TVs to plasma TVs and projection TVs. In **product line pricing**, management must decide on the price steps to set between the various products in a line.

TABLE 11.1 Product Mix Pricing Strategies

Strategy	Description
Product line pricing	Setting price steps between product line items
Optional-product pricing	Pricing optional or accessory products sold with the main product
Captive-product pricing	Pricing products that must be used with the main product
By-product pricing	Pricing low-value by-products to get rid of them
Product bundle pricing	Pricing bundles of products sold together

The price steps should take into account cost differences between the products in the line, customer evaluations of their different features, and competitors' prices. In many industries, sellers use well-established *price points* for the products in their line. Thus, men's clothing stores might carry men's suits at three price levels: $185, $325, and $495. The customer will probably associate low-, average-, and high-quality suits with the three price points. Even if the three prices are raised a little, men will normally buy suits at their own preferred price points. The seller's task is to establish perceived quality differences that support the price differences.

Optional-Product Pricing

Many companies use **optional-product pricing**—offering to sell optional or accessory products along with their main product. For example, a car buyer can choose to order a global positioning system (GPS) and Bluetooth wireless communication. Pricing these options is tricky. Companies must decide which items to include in the base price and which to offer as options.

Optional-product pricing
The pricing of optional or accessory products along with a main product.

Tune Hotels – Malaysian-owned Tune Hotels, part of the AirAsia Group, adopts an optional-product or add-on pricing. Its Web site has this instruction to guests who make bookings online: "Please select your add-on purchase." At its Bali hotel, on top of paying for the room, guests have the option of booking for 12 hours of air-conditioning at 40,000 rupiah ($4.85). At its Kuala Lumpur hotel, guests can rent a towel and toiletries kit for an extra 5.30 ringgit ($1.60). And at its London hotel, television or wireless Internet access is an option at £3 ($4.85) a day. Unlike other hotels where such ancillary products are automatically included in the room rate, Tune Hotels' rationale is that as long as the price is right, guests are happy to do without swimming pools, business centers, and meeting rooms; but are prepared to pay extra for extras. Its business model seems to be working. Occupancy rates across the hotels it operates in Britain, Indonesia, and Malaysia are more than 90 percent.[6]

Tune Hotels adopts an optional-product pricing by charging guests for add-ons that they desire. These add-ons include air-conditioning, towel and toiletries kit, and television access.

Captive-product pricing
Setting a price for products that must be used along with a main product, such as blades for razors and cartridges for printers.

Captive-Product Pricing

Companies that make products that must be used along with a main product use **captive-product pricing**. Examples of captive products are razor blade cartridges, single-serve coffee pods, and printer cartridges. Producers of the main products (single-cup coffee brewing systems) often price them low and set high markups on the supplies.

Companies using captive-product pricing must be careful. Consumers may feel that they are trapped into buying expensive captive products and come to resent the brand that ensnared them. This happened in the inkjet printer and cartridge industry.

In the case of services, this strategy is called *two-part pricing*. The price of the service is broken into a *fixed fee* plus a *variable usage rate*. Thus, at Universal Studios, you pay an entrance ticket plus additional fees for food and some in-park features such as wall-climbing activities.

❯ **Two-part pricing** – Theme parks such as Universal Studios charge a fixed fee for entrance and a variable usage fee for food and activities such as wall climbing.

By-Product Pricing

Producing products and services often generates by-products. If the by-products have no value and if getting rid of them is costly, this will affect the pricing of the main product. Using **by-product pricing**, the company seeks a market for these by-products to help offset the costs of disposing of them and help make the price of the main product more competitive.

By-product pricing
Setting a price for by-products to make the main product's price more competitive.

Product bundle pricing
Combining several products and offering the bundle at a reduced price.

Product Bundle Pricing

Using **product bundle pricing**, sellers often combine several of their products and offer the bundle at a reduced price. For example, fast-food restaurants offer a "value meal" by bundling a burger, fries, and a soft drink at a combo price. Resorts sell specially-priced vacation packages that include airfare, accommodation, meals, and entertainment. Cable companies bundle cable service, phone service, and high-speed Internet connections at a low combined price. Price bundling can promote the sales of products consumers might not otherwise buy, but the combined price must be low enough to get them to buy the bundle.[7]

❯ Telecommunication companies, such as SingTel in Singapore, offer bundle pricing by giving discounted rates when customers subscribe to several of its services—mobile phone, cable, and Internet connections.

Price-Adjustment Strategies

Companies usually adjust their basic prices to account for various customer differences and changing situations. Here we examine the price-adjustment strategies summarized in **Table 11.2**: *discount and allowance pricing*, *segmented pricing*, *psychological pricing*, *promotional pricing*, *geographical pricing*, *dynamic pricing*, and *international pricing*.

TABLE 11.2 Price-Adjustment Strategies

Strategy	Description
Discount and allowance pricing	Reducing prices to reward customer responses such as paying early or promoting the product
Segmented pricing	Adjusting prices to allow for differences in customers, products, or locations
Psychological pricing	Adjusting prices for psychological effect
Promotional pricing	Temporarily reducing prices to increase short-run sales
Geographical pricing	Adjusting prices to account for the geographic location of customers
Dynamic pricing	Adjusting prices continually to meet the characteristics and needs of individual customers and situations
International pricing	Adjusting prices for international markets

Discount and Allowance Pricing

Most companies adjust their basic price to reward customers for certain responses such as early payment of bills, volume purchases, and off-season buying. These price adjustments—called *discounts* and *allowances*—can take many forms.

The many forms of **discounts** include a *cash discount*, a price reduction to buyers who pay their bills promptly. A typical example is "2/10, net 30," which means that although payment is due within 30 days, the buyer can deduct 2 percent if the bill is paid within 10 days. A *quantity discount* is a price reduction to buyers who buy large volumes. Such discounts provide an incentive to the customer to buy more from one given seller, rather than from many different sources. A *functional discount* (also called a *trade discount*) is offered by the seller to trade-channel members who perform certain functions, such as selling, storing, and record keeping. A *seasonal discount* is a price reduction to buyers who buy merchandise or services out of season.

Allowances are another type of reduction from the list price. For example, *trade-in allowances* are price reductions given for turning in an old item when buying a new one. Trade-in allowances are common in the automobile and telecommunications industries. *Promotional allowances* are payments or price reductions to reward dealers for participating in advertising and sales support programs.

Discount
A straight reduction in price on purchases during a stated period of time.

Allowance
Promotional money paid by manufacturers to retailers in return for an agreement to feature the manufacturer's products in some way.

Segmented Pricing

Companies often adjust their basic prices to allow for differences in customers, products, and locations. In **segmented pricing**, the company sells a product or service at two or more prices, even though the difference in prices is not based on differences in costs.

Segmented pricing
Selling a product or service at two or more prices, where the difference in prices is not based on differences in costs.

› **Product-form pricing** – Evian water in a 1-liter bottle might cost you 5 cents an ounce at your local supermarket, whereas the same water might run $2.28 an ounce when sold in 5-ounce aerosol cans as Evian Brumisateur Mineral Water Spray moisturizer.

Segmented pricing takes several forms. Under *customer-segment pricing*, different customers pay different prices for the same product or service. Museums, for example, may charge a lower admission fee for students and senior citizens. Under *product-form pricing*, different versions of the product are priced differently but not according to differences in their costs. For instance, a 1-liter bottle of Evian mineral water may cost $1.59 at your local supermarket. But a 5-ounce aerosol can of Evian Brumisateur Mineral Water Spray sells for a suggested retail price of $11.39 at beauty boutiques and spas. The water is all from the same source in the French Alps, and the aerosol packaging costs a little more than the plastic bottles. Yet you pay about 5 cents an ounce for one form and $2.28 an ounce for the other.

Using *location-based pricing*, a company charges different prices for different locations, even though the cost of offering at each location is the same. For instance, some theaters vary their seat prices because of audience preferences for certain seat locations, and universities charge higher tuition fees for foreign students. Finally, using *time pricing*, a firm varies its price by the season, the month, the day, and even the hour. Some telecommunication companies vary their prices by the time of day and weekend versus weekday. Resorts give weekend and seasonal discounts.

For segmented pricing to be an effective strategy, certain conditions must exist. The market must be segmentable, and the segments must show different degrees of demand. The costs of segmenting and watching the market cannot exceed the extra revenue obtained from the price difference. Segmented prices should also reflect real differences in customers' perceived value. Otherwise, in the long run, the practice will lead to customer resentment and ill will.

Psychological Pricing

Price says something about the product. For example, many consumers use price to judge quality. A $100 bottle of perfume may contain only $3 worth of scent, but some people are willing to pay the $100 because this price indicates something special.

Psychological pricing
A pricing approach that considers the psychology of prices and not simply the economics; the price is used to say something about the product.

In using **psychological pricing**, sellers consider the psychology of prices and not simply the economics. For example, consumers usually perceive higher-priced products as having higher quality. When they can judge the quality of a product by examining it or by calling on a past experience with it, they are not as likely to use price to judge quality. But when they cannot judge quality because they lack the information or skill, price becomes an important quality signal. For example, who's the better lawyer—one who charges $100 per hour or one who charges $500 per hour? You'd have to check the respective lawyers' credentials to answer this question objectively; even then, you might not be able to judge accurately. Most of us would assume that the higher-priced lawyer is better.

Reference prices
Prices that buyers carry in their minds and refer to when they look at a given product.

› **Psychological pricing** – What do the prices marked on this tag suggest about the product and buying solution?

Another aspect of psychological pricing is **reference prices**—prices that buyers carry in their minds and refer to when looking at a given product.

The reference price might be formed by noting current prices, remembering past prices, or assessing the buying situation. Sellers can influence or use these consumers' reference prices when setting prices. For example, a company could display its product next to more expensive ones to imply that it belongs in the same class. Department stores often sell women's clothing in separate departments differentiated by price; clothing found in the more expensive department is assumed to be of better quality.

For most purchases, consumers don't have all the skill or information they need to figure out whether they are paying a good price. They don't have the time, ability, or inclination to research different brands or stores, compare prices, and get the best deals. Instead, they may rely on certain cues that signal whether a price is high or low. For example, the fact that a product is sold in a prestigious department store might signal that it's worth a higher price.

Interestingly, such pricing cues are often provided by sellers. A retailer might show a high manufacturer's suggested price next to the marked price, indicating that the product was originally priced much higher. Or the retailer might sell a selection of familiar products for which consumers have accurate price knowledge at very low prices, suggesting that the store's prices on other, less familiar products are low as well. The use of such pricing cues has become a common marketing practice.

Even small differences in price can signal product differences. Consider a stereo priced at $300 compared to one priced at $299.99. The actual price difference is only 1 cent, but the psychological difference can be much greater. For example, some consumers will see the $299.99 as a price in the $200 range rather than the $300 range. The $299.99 will more likely be seen as a bargain price, whereas the $300 price suggests more quality. Some psychologists argue that each digit has symbolic and visual qualities that should be considered in pricing. For example, 8 is round and even and creates a soothing effect, whereas 7 is angular and creates a jarring effect.[8] For the Chinese, the digit 8 sounds like prosperity in Cantonese and Mandarin. Hence, 8 is used in pricing to suggest good fortune for potential customers.

❯ "8" is an auspicious number to the Chinese because it sounds like prosperity; while to the Japanese it gives the idea of growing prosperous because the digit (八) broadens gradually.

Promotional Pricing

With **promotional pricing**, companies will temporarily price their products below list price and sometimes even below cost to create buying excitement and urgency. Promotional pricing takes several forms. Supermarkets and department stores will price a few products as *loss leaders* to attract customers to the store and hope that they will buy other items at normal markups. Sellers will also use *special-event pricing* in certain seasons to draw more customers. Thus, school shoes are promotionally priced before the school year begins to attract mothers and children to the stores.

Promotional pricing
Temporarily pricing products below the list price, and sometimes even below cost, to increase short-run sales.

Manufacturers sometimes offer *cash rebates* to consumers who buy the product from dealers within a specified time; the manufacturer sends the rebate directly to the customer. Rebates have been popular with automakers and producers of durable goods and small appliances, but they are also used with consumer packaged goods. Some manufacturers offer *low-interest financing*, *longer warranties*, or *free maintenance* to reduce the consumer's "price." This practice has become another favorite of the automotive industry. Or, the seller may simply offer *discounts* from normal prices to increase sales and reduce inventories.

Promotional pricing, however, can have adverse effects. It can:

- *Create "deal-prone" customers*. These customers wait until brands go on sale before buying them.
- *Erode brand equity*. Marketers sometimes use price promotions as a quick fix instead of sweating through the difficult process of developing effective longer-term strategies for building their brands.
- *Lead to industry price wars*. Such price wars usually play into the hands of only one or a few competitors—those with the most efficient operations. For example, computer companies, including IBM and Hewlett-Packard, showed strong profits as their new technologies were snapped up by eager consumers. When the market cooled, however, many competitors began to unload PCs at discounted prices. In response, a brutal price war resulted.

› Special-event pricing – When the new school year is about to start, retailers will begin promoting school shoes, socks, and school bags.

The point is that promotional pricing can be an effective means of generating sales for some companies in certain circumstances. But it can be damaging if done too frequently.

Geographical Pricing

A company also must decide on how to price its products for customers located in different parts of the country or world. Should the company risk losing the business of more-distant customers by charging them higher prices to cover the higher shipping costs? Or should the company charge all customers the same price regardless of location? We will look at five **geographical pricing** strategies for the following hypothetical situation:

Geographical pricing
Setting prices for customers located in different parts of the country or world.

> The Sawasdee Paper Company is located in Chiangmai and sells paper products to customers all over Thailand. The cost of freight is high and affects the companies from whom customers buy their paper. Sawasdee wants to establish a geographical pricing policy. It is trying to determine how to price a $100 order to three specific customers: Customer A (Bangkok), Customer B (Phuket), and Customer C (Songkhla).

One option is for Sawasdee to ask each customer to pay the shipping cost from the Chiangmai factory to the customer's location. All three customers would pay the same factory price of $100, with Customer A paying, say, $10 for shipping; Customer B, $15; and Customer C, $25. Called **FOB-origin pricing**, this practice means that the goods are placed *free on board* (hence, *FOB*) a carrier. At that point, the title and responsibility is passed to the customer, who pays the freight from the factory to the destination. Because each customer picks up his own cost, supporters of FOB pricing feel that this is the fairest way to assess freight charges. The disadvantage, however, is that Sawasdee will be a high-cost firm to distant customers.

FOB-origin pricing
A geographical pricing strategy in which goods are placed free on board a carrier, and the customer pays the freight from the factory to the destination.

Uniform-delivered pricing
A geographical pricing strategy in which the company charges the same price plus freight to all customers, regardless of their location.

Uniform-delivered pricing is the opposite of FOB pricing. Here, the company charges the same price plus freight to all customers, regardless of their location. The freight charge is set at the average freight cost. Suppose this is $15. Uniform-delivered pricing therefore results in a higher charge to the Bangkok customer (who pays $15 freight instead of $10) and a lower charge to the Songkhla customer (who pays $15 instead of $25). Although the Bangkok customer would prefer to buy paper from another local paper company that uses FOB-origin pricing, Sawasdee has a better chance of winning over the Thai customer. Other advantages of uniform-delivered pricing are that it is fairly easy to administer and it lets the firm advertise its price nationally.

Zone pricing falls between FOB-origin pricing and uniform-delivered pricing. The company sets up two or more zones. All customers within a given zone pay a single total price; the more distant the zone, the higher the price. For example, Sawasdee might set up a North Zone and charge $10 freight to all customers in this zone, a South Zone in which it charges $15, and a West Zone in which it charges $25. In this way, the customers within a given price zone receive no price advantage from the company. For example, customers in Bangkok and Pattaya pay the same total price to Sawasdee. The complaint, however, is that the Bangkok customer is paying part of the Pattaya customer's freight cost.

Using **basing-point pricing**, the seller selects a given city as a "basing point" and charges all customers the freight cost from that city to the customer location, regardless of the city from which the goods are actually shipped. For example, Sawasdee might set Pattaya as the basing point and charge all customers $100 plus the freight from Pattaya to their locations. This means that a Bangkok customer pays the freight cost from Pattaya to Bangkok, even though the goods may be shipped from Bangkok. If all sellers used the same basing-point city, delivered prices would be the same for all customers and price competition would be eliminated. Industries such as sugar, cement, steel, and automobiles have used basing-point pricing for years, but this method has become less popular today. Some companies set up multiple basing points to create more flexibility: they quote freight charges from the basing-point city nearest to the customer.

Finally, the seller who is anxious to do business with a certain customer or geographical area might use **freight-absorption pricing**. Using this strategy, the seller absorbs all or part of the actual freight charges to get the desired business. The seller might reason that if it can get more business, its average costs will fall and more than compensate for its extra freight cost. Freight-absorption pricing is used for market penetration and to hold on to increasingly competitive markets.

Zone pricing
A geographical pricing strategy in which the company sets up two or more zones. All customers within a zone pay the same total price; the more distant the zone, the higher the price.

Basing-point pricing
A geographical pricing strategy in which the seller designates a city as a basing point and charges all customers the freight cost from that city to the customer.

Freight-absorption pricing
A geographical pricing strategy in which the seller absorbs all or part of the freight charges to get the desired business.

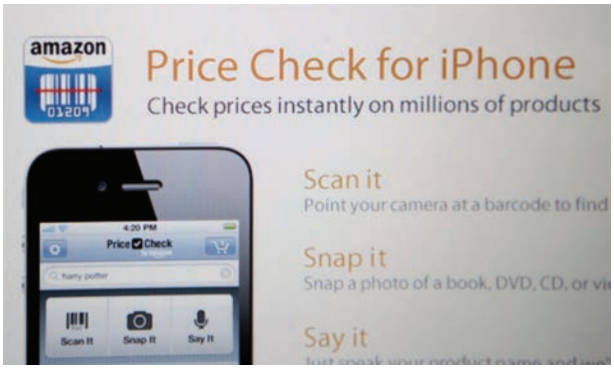
Dynamic and Internet Pricing

Some companies use **dynamic pricing**—adjusting prices continually to meet the characteristics and needs of individual customers and situations. For example, think about how the Internet has affected pricing. The Internet allows for fluid pricing where a wide range of goods can be priced according to what the market will bear. The flexibility of the Internet allows online sellers to instantly and constantly adjust prices on a wide range of goods based on demand dynamics (sometimes called *real-time pricing*). In other cases, customers control pricing by bidding on auction sites such as eBay or negotiating on sites such as Priceline.

Dynamic pricing offers many advantages for marketers. For example, Internet sellers such as Amazon.com can mine their databases to gauge a specific shopper's desires, measure his or her means, instantaneously tailor products to fit that shopper's behavior, and price products accordingly. And many direct marketers monitor inventories, costs, and demand at any given moment and adjust prices instantly.

Consumers also benefit from the Web and dynamic pricing. A wealth of *shopping bots*—such as Amazon's Price Check, Yahoo! Shopping, Bizrate.com, and PriceScan.com—offer instant product and price comparisons from thousands of vendors. In addition

Dynamic pricing
Adjusting prices continually to meet the characteristics and needs of individual customers and situations.



› Dynamic and Internet pricing – Using mobile apps such as Amazon's Price Check, consumers can get instant price comparisons on millions of products.

to finding the best product and the vendor with the best price for that product, customers armed with price information can often negotiate lower prices.

Buyers can also negotiate prices at online auction sites and exchanges. Want to sell that mobile phone? Post it on eBay, or Taobao.Want to name your own price for a hotel room or rental car? Visit Priceline.com or another reverse auction site. Dynamic pricing makes sense in many contexts; it adjusts prices according to market forces, and it often works to the benefit of the customer (see **Real Marketing 11.1**).

International Pricing

Companies that market their products internationally must decide what prices to charge in the different countries in which they operate. In some cases, a company can set a uniform worldwide price. For example, Boeing sells its jetliners at about the same price everywhere. However, most companies adjust their prices to reflect local market conditions and cost considerations.

The price that a company should charge in a specific country depends on many factors, including economic conditions, competitive situations, laws and regulations, and the development of the wholesaling and retailing system. Consumer perceptions and preferences may also vary from country to country, calling for different prices. Or the company may have different marketing objectives in various world markets, which require changes in pricing strategy. For example, Samsung might introduce a new product into mature markets in highly developed countries with the goal of quickly gaining mass-market share—this would call for a penetration-pricing strategy. In contrast, it might enter a less developed market by targeting smaller, less price-sensitive segments; in this case, market-skimming pricing makes sense.

Costs play an important role in setting international prices. Travelers abroad are often surprised to find that goods that are relatively inexpensive at home may carry outrageously higher price tags in other countries. A pair of Levi's selling for $30 in the United States might go for $63 in Tokyo, and $88 in Paris. Similarly, a Kate Spade handbag going for $300 in the United States might fetch $600 in Singapore. In some cases, such *price escalation* may result from differences in selling strategies or market conditions. In most instances, however, it is a result of the higher costs of selling in another country—the additional costs of product modifications, shipping and insurance, import tariffs and taxes, exchange-rate fluctuations, and physical distribution. Japan, for instance, has a complex distribution system that may increase cost.

› International pricing – In emerging markets like Indonesia, Unilever developed small, single-use shampoo packets of its Sunsilk, Ponds, Dove, and other brands at extremely affordable and consumer-friendly prices.

Price has become a key element in the international marketing strategies of companies attempting to enter emerging markets such as China, India, and Brazil. Typically, entering such markets has meant targeting the exploding middle classes. However, as the global economy weakened and growth slowed in the emerging markets, companies are including a new target—the "bottom of the pyramid"—the vast untapped market consisting of the world's poorest consumers. Thus, many companies are developing smaller, more basic and affordable product versions for these markets. For example, Unilever—the maker of such brands as Dove, Sunsilk, Lipton, and Vaseline—shrunk its packaging and set low prices that even the poorest consumers could afford. It developed single-use packages of its shampoo, laundry detergent, and face cream that it could sell profitably for just pennies a pack. Today, more than half of Unilever's revenues come from emerging economies.

Selling profitably to the bottom of the pyramid requires more than just repackaging or stripping down existing products and selling them at low prices. Just like well-to-do consumers, low-income buyers also want products that are both functional and aspirational. Thus, companies are innovating products that not only sell at low prices but also give more value for money.

Godrej & Boyce used customer-driven innovation to successfully tap the market for low-priced refrigerators in India. Due to high purchase and operation cost, traditional compressor-driven refrigerators had limited scope in the country. So instead of producing cheaper, stripped down versions of its high-end refrigerators, Godrej assigned a team to study the needs of Indian consumers with poor or no refrigeration. The semi-urban and rural population typically earned 5,000 to 8,00 rupees (about $125 to $200) a month, lived in single-room dwellings with four or five family members, and changed residences frequently. Unable to afford conventional refrigerators, these consumers make do with communal, usually second-hand ones. Even with shared refrigerators, these consumers would only purchase and stock a few items, shopping daily and buying only small quantities of products. Moreover, electricity was unreliable and the little that they wanted to keep cool was at risk.

Godrej recognized that this low-end segment had little need for a conventional high-end refrigerator. It needed a fundamentally new product. Thus, Godrej created the ChotuKool (little cool), a small, candy red, top-opening, portable unit that has room for the few items that a consumer wants to keep fresh for a day or two. Rather than a compressor or refrigerant, the small unit uses a chip that cools when current is applied, and its top-opening design keeps cold air inside when the lid is opened. The ChotuKool uses less than half the energy of a conventional refrigerator and can run on a battery during power outages, common in rural villages. At only $69, ChotuKool does a better job of meeting the needs of consumers at half the price of even the most basic, traditional refrigerators.

› **Selling to the world's poor –** At only $69, Godrej's ChotuKool ("little cool") does a better job of meeting the needs of low-end Indian consumers at half the price of even the most basic conventional refrigerator.

Price Changes

After developing their pricing structures and strategies, companies often face situations in which they must initiate price changes or respond to price changes by competitors (see **Figure 11.2**).

Initiating Price Changes

In some cases, the company may find it desirable to initiate either a price cut or a price increase. In both cases, it must anticipate possible buyer and competitor reactions.

Real Marketing 11.1

Dynamic Pricing:
The Wonders and Woes of Real-Time Price Adjustments

These days, it seems every seller knows what prices competitors are charging—for anything and everything it sells, minute by minute, and down to the penny. What's more, today's technologies give sellers the flexibility to adjust their own prices on the fly. This often results in some pretty zany pricing dynamics.

For example, during a recent Black Friday weekend, in the United States the prices charged for the latest version of an Xbox game, Dance Central, experienced some head-spinning dips and dives. The day before Thanksgiving, Amazon marked the game down to $49.96, matching Wal-Mart's price. On Thanksgiving Day, Amazon slashed that price in half to just $24.99, matching Best Buy's Thanksgiving Day special. Wal-Mart responded quickly with a rockbottom price of $15, which Amazon matched immediately. "What kind of pricing lunacy is this?" you ask. Welcome to the wonders and woes of dynamic pricing.

On the plus side, dynamic pricing can help sellers optimize sales and serve customers better by aligning prices with competitor offers and market conditions. For example, airlines routinely use dynamic pricing to constantly adjust fares for specific flights, depending on competitor pricing and anticipated seat availability. As any frequent flyer knows, if you call now to book a seat on a flight to sunny Florida next week, you'll get one price. Try again an hour later and you'll get a different price—maybe higher, maybe lower. Book the same seat a month in advance and you'll probably pay a lot less.

Dynamic pricing isn't just about sellers optimizing their returns. It also puts pricing power into the hands of consumers, as alert shoppers take advantage of the constant price skirmishes among sellers. By using online price checkers and shopping apps to monitor prices, consumers can snap up good deals or leverage retailer price-matching policies. In fact, today's fluid pricing sometimes gives buyers too much of an upper hand. With price-checking and online-ordering now at the shopper's fingertips, even giant retailers such as Wal-Mart and Best Buy have fallen victim to "showrooming"—whereby shoppers check merchandise and prices in store-retailer showrooms, then buy the goods online.

Stores like Best Buy are in turn using dynamic pricing to combat showrooming, or even turn it into an advantage. For example, Best Buy Canada now provides its sales associates with mobile price checkers of their own that they can use with every transaction to check the competing prices in real time. Associates can often show customers that Best Buy actually has the best prices on most items. When Best Buy's price isn't lowest, associates are instructed to beat the lower-priced competitor—online or offline—by 10 percent. Once it has neutralized price as a buying factor, Best Buy reasons, it can convert showroomers into in-store buyers with its nonprice advantages of service, immediacy, convenient locations, and easy returns.

As the Best Buy example illustrates, dynamic pricing doesn't just happen in the fast-shifting online environment. For example, discount department store Kohl's has replaced static price tags with digital ones. These digital tags can be centrally controlled to change prices dynamically on individual items within a given store or across the entire chain. The technology lets Kohl's apply Internet- style dynamic pricing, changing prices as conditions dictate without the time and costs of changing physical tags.

Beyond using dynamic pricing to match competitors, many sellers use it to adjust prices based on customer characteristics or buying situations. Some sellers vary prices they charge different customers based on customer purchase histories or personal data. Some companies offer special discounts to customers with more items in their shopping carts. Online travel agent Orbitz has even been known to charge higher prices to Mac and iPad users because Apple fans have higher average household incomes.

Most consumers are surprised to learn that it's perfectly legal under most circumstances to charge different prices to different customers based on their buying behaviors. In fact, one survey found that two-thirds of online shoppers thought the practice was illegal. When they learned that it was not illegal, nearly nine out of ten thought it should be.

Legal or not, dynamic pricing doesn't always sit well with customers. Done poorly, it can cause customer confusion, frustration, or even resentment, damaging hard-won customer relationships. Consider this Amazon shopper's experience:

> Nancy Plumlee had just taken up mahjong, a Chinese game of tiles similar to rummy. She browsed Amazon.com and, after sifting through several pages of options, settled on a set for $54.99. She placed it in her [shopping cart] and continued shopping for some scorecards and game accessories. A few minutes later, she scanned the cart and noticed the $54.99 had jumped to $70.99. Plumlee thought she was going crazy. She checked her computer's viewing history and, indeed, the game's original price was listed at $54.99. Determined, she cleared out the cart and tried again. [This time,] the game's price jumped from $54.99 to $59.99. "That just doesn't feel like straight-up business honesty. Shame on Amazon," said Plumlee, who called [Amazon] and persuaded the online retailer to refund her $5.

It is sometimes difficult to locate the fine line between a smart dynamic pricing strategy and one that crosses the line, doing more damage to customer relationships than good to the company's bottom line. Consider Uber, an app-based car dispatch service serving many major U.S. cities that lets customers summon taxis, cars, or other transportation using texts or the company's phone app:

> Uber uses a form of dynamic pricing called "surge pricing." Under normal circumstances, Uber customers pay reasonable fares. However, using Uber in periods of surging demand can result in shocking price escalations. For example, on one recent stormy, holiday-Saturday night in Manhattan, Uber charged—and got— fares that were more than eight times the usual. Although Uber's app warned customers of heightened fares before processing their requests, many customers were outraged. They commented, e-mailed, and tweeted their displeasure with messages charging the company with price gouging. One customer shared an Instagram photo of a taxi receipt for $415. "That is robbery!" tweeted another. However, despite the protests, Uber experienced no subsequent drop in demand in the New York City area. It seems that, to most people who can afford Uber, convenience and prestige are the deciding factors, not price. "No one is forcing you to use the service," adds one commenter. "Don't like it? Take [your own] cab. Or public transportation. Or walk."

Thus, used well, dynamic pricing can help sellers to optimize sales and profits by keeping track of competitor pricing and quickly adjusting to marketplace changes. Used poorly, however, it can trigger margin-eroding price wars and damage customer relationships and trust. Too often, dynamic pricing takes the form of a pricing "arms race" among sellers, putting too much emphasis on prices at the expense of other important customer value-building elements. Companies must be careful to keep pricing in balance. As one Best Buy marketer states, pricing—dynamic or otherwise—remains "just one part of the equation. There's the right assortment, convenience, expedited delivery, customer service, warranty. All of these things matter to the customer."

Sources

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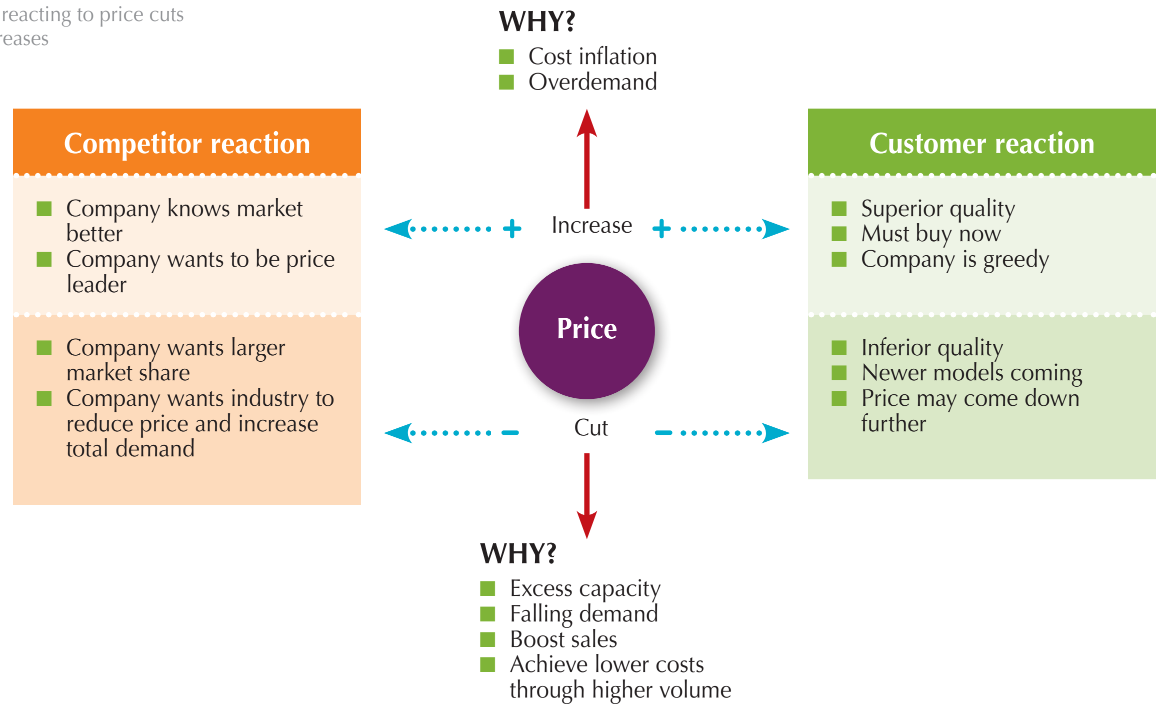
Initiating Price Cuts

Several situations may lead a firm to consider cutting its price. One such circumstance is excess capacity. Another is falling demand in the face of strong price competition. In such cases, the firm may aggressively cut prices to boost sales and market share. But as the airline industry has learned, cutting prices in an industry loaded with excess capacity may lead to price wars as competitors try to hold on to market share.

A company may also cut prices in a drive to dominate the market through lower costs. Either the company starts with lower costs than its competitors, or it cuts prices in the hope of gaining market share that will further cut costs through larger volume. For example, computer and electronics maker Lenovo uses an aggressive low-cost, low-price strategy to increase its share of the PC market in developing countries.

FIGURE 11.2
Initiating and reacting to price cuts and price increases



Initiating Price Increases

A successful price increase can greatly increase profits. For example, if the company's profit margin is 3 percent of sales, a 1 percent price increase will increase profits by 33 percent if sales volume is unaffected. A major factor in price increases is cost inflation. Rising costs squeeze profit margins and lead companies to pass cost increases along to customers. Another factor leading to price increases is overdemand: when a company cannot supply all that its customers need, it may raise its prices, ration products to customers, or both.

When raising prices, the company must avoid being perceived as a *price gouger* or it may turn away customers. One way is to maintain a sense of fairness surrounding any price increase. Price increases should be supported by company communications telling customers why prices are being raised. Making low-visibility price moves first is also a good technique; some examples include dropping discounts, increasing minimum order sizes, and curtailing production of low-margin products.

Wherever possible, the company should consider ways to meet higher costs or demand without raising prices. For example, it can consider more cost-effective ways to produce or distribute its products. It can shrink the product or substitute less expensive ingredients instead of raising the price. For instance, Kimberly-Clark raised Kleenex prices by "desheeting"—reducing the number of sheets of toilet paper or facial tissues in each package.

Buyer Reactions to Price Changes

Customers do not always interpret price changes in a straightforward way. They may view a price *cut* in several ways. For example, what would you think if Samsung suddenly cut its TV prices drastically? You might think that the TVs are about to be replaced by newer models or that they have some fault and are not selling well. You might believe that Samsung's quality has been reduced. Or you might think that the price will come down even further and that it will pay to wait and see.

Similarly, a price *increase*, which would normally lower sales, may have some positive meanings for buyers. What would you think if Samsung *raised* the price of its latest TV model? On the one hand, you might think that the item is very "hot" and may be unobtainable unless you buy it soon. Or you might think that the TV is an unusually good performer. On the other hand, you might think that Samsung is greedy and charging what the traffic will bear.

A brand's price and image are often closely linked. A price change, especially a drop in price, can adversely affect how consumers view the brand. Tiffany found this out when it attempted to broaden its appeal by offering a line of more affordable jewelry.

Tiffany is all about luxury and the cachet of its blue boxes. However, in the late 1990s, the high-end jeweler responded to the "affordable luxuries" craze with a new "Return to Tiffany" line of less expensive silver jewelry. The "Return to Tiffany" silver charm bracelet quickly became a must-have item, as teens jammed Tiffany's hushed stores clamoring for the $110 silver bauble. Sales skyrocketed. But despite this early success, the bracelet fad appeared to alienate the firm's older, wealthier, and more conservative clientele, damaging Tiffany's reputation for luxury. Subsequently, the firm began re-emphasizing its pricier jewelry collections. Although high-end jewelry has once again replaced silver as Tiffany's fastest-growing business, the company has yet to fully regain its exclusivity. Says one well-heeled customer: "You used to aspire to be able to buy something at Tiffany, but now it's not that special anymore."[9]

› Price changes – A brand's price and image are often closely linked, and a change in price can adversely affect how consumers view the brand. Tiffany found this out when it attempted to broaden its appeal by offering a line of more affordable jewelry.

Competitor Reactions to Price Changes

Competitors are most likely to react when the number of firms involved is small, when the product is uniform, and when the buyers are well-informed about products and prices.

The competitor can interpret a company price cut in many ways. It might think the company is trying to grab a larger market share, or that it is doing poorly and trying to boost its sales. Or it might think that the company wants the whole industry to cut prices to increase total demand.

The company must guess each competitor's likely reaction. If all competitors behave alike, this amounts to analyzing only a typical competitor. In contrast, if the competitors do not behave alike, then separate analyses are necessary. However, if some competitors will match the price change, there is good reason to expect that the rest will also match it.

Responding to Price Changes

Here we reverse the question and ask how a firm should respond to a price change by a competitor. The firm needs to consider several issues: Why did the competitor change the price? Is the price change temporary or permanent? What will happen to the company's market share and profits if it does not respond? Are other competitors going to respond? Besides these issues, the company must also consider its own situation and strategy and possible customer reactions to price changes.

Figure 11.3 shows the ways a company might assess and respond to a competitor's price cut. Suppose the company learns that a competitor has cut its price and decides that this price cut is likely to harm company sales and profits. It might decide to hold its current price and profit margin. The company might believe that it will not lose too much market share, or that it would lose too much profit if it reduced its own price. Or it might decide that it should wait and respond when it has more information on the effects of the competitor's price change.

If the company decides that effective action can and should be taken, it might make any of four responses. First, it could *reduce its price* to match the competitor's price. It may decide that the market is price-sensitive and that it would lose too much market share to the lower-priced competitor. Cutting the price will reduce the company's profits in the short run. Some companies might also reduce their product quality, services, and marketing communications to retain profit margins, but this will ultimately hurt long-run market share. The company should try to maintain its quality as it cuts prices.

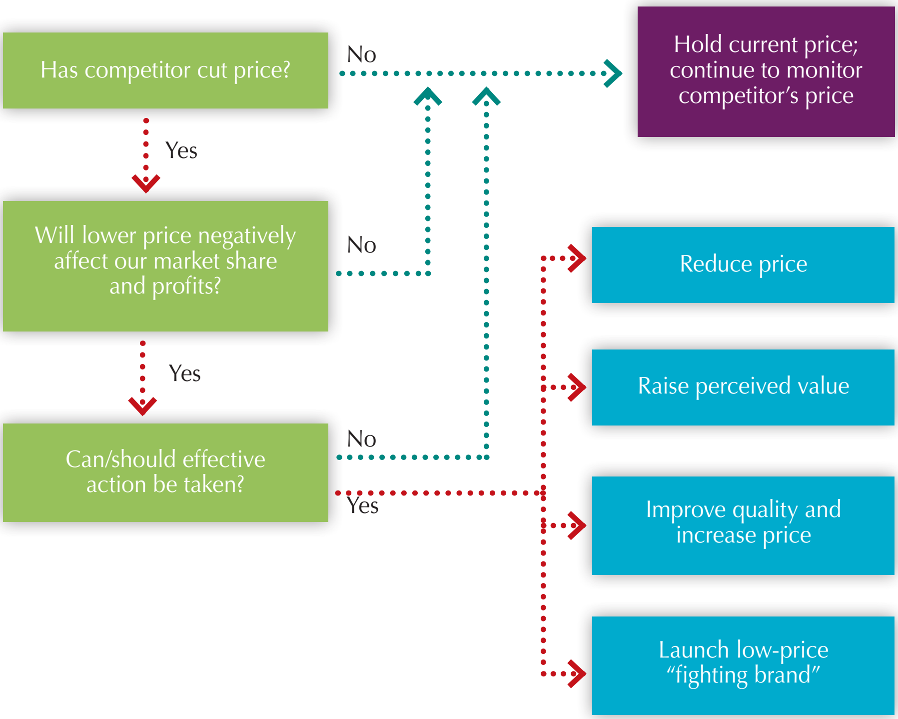


FIGURE 11.3
Assessing and responding to competitor price changes

Alternatively, the company might maintain its price but *raise the perceived value* of its offer. It could improve its communications, stressing the relative value of its product over that of the lower-price competitor. The firm may find it cheaper to maintain price and spend money to improve its perceived value than to cut price and operate at a lower margin. Or, the company might *improve quality and increase price*, moving its brand into a higher price–value position. The higher quality creates greater customer value, which justifies the higher price. In turn, the higher price preserves the company's higher margins.

Finally, the company might *launch a low-price "fighting brand"*—adding a lower-price item to the line or creating a separate lower-price brand. This is necessary if the particular market segment being lost is price-sensitive and will not respond to arguments of higher quality. Thus, when challenged on price by AirAsia and Jetstar, Singapore Airlines invested in a long-distance low-fare airline called Scoot.

› **Fighting brand** – In response to the entry of budget airlines such as AirAsia and Jetstar, Singapore Airlines invested in Scoot, a medium- and long-distance, low-fare airline.

Public Policy and Pricing

Price competition is a core element of a free-market economy. In setting prices, companies are usually not free to charge whatever prices they wish. There may be laws governing the rules of fair play in pricing. In addition, companies must consider broader societal pricing concerns.

Figure 11.4 shows the major public policy issues in pricing. These include potentially damaging pricing practices within a given level of the channel (price-fixing and predatory pricing) and across levels of the channel (retail price maintenance, discriminatory pricing, and deceptive pricing).[10]

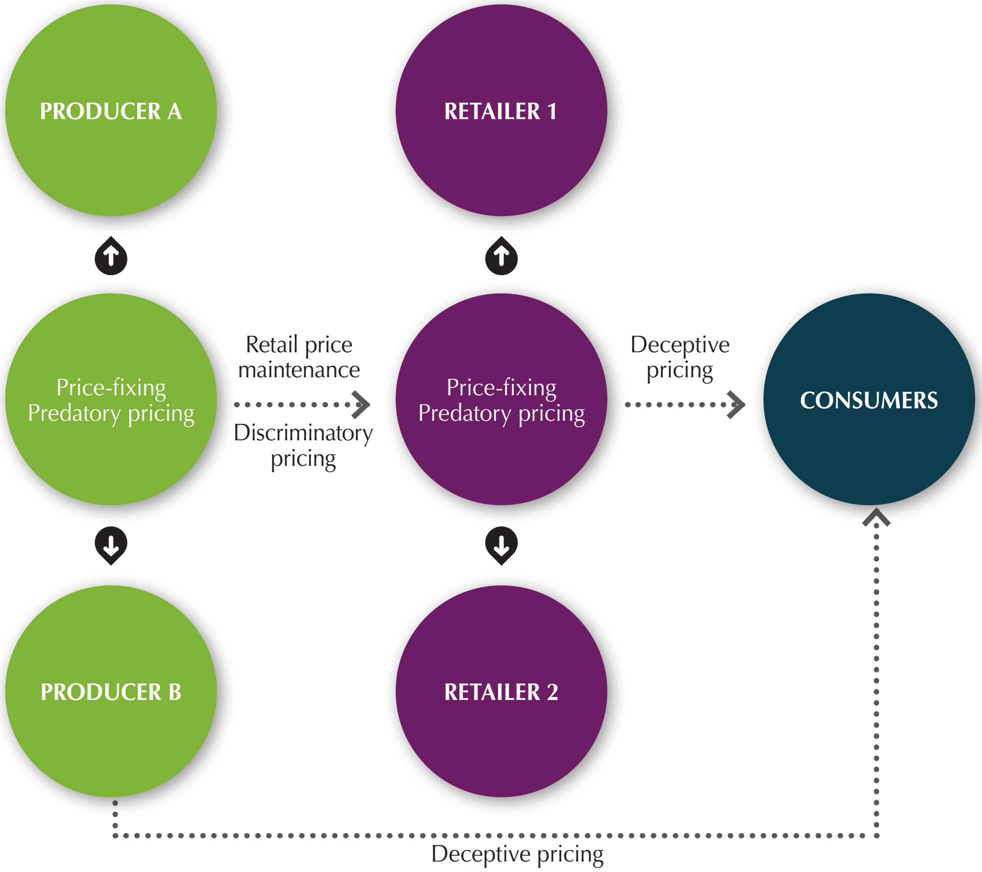


FIGURE 11.4
Public policy issues in pricing
Source: Adapted with permission from Dbruv Grewel and Larry D. Compeau, "Pricing and Public Policy: A Research Agenda and Overview of Special Issue," *Journal of Public Policy and Marketing*, Spring 1999, pp. 3–10, Figure 1.

Pricing Within Channel Levels

Price-fixing occurs when sellers set prices after talking to competitors. Price-fixing is illegal. For example, Samsung and two other computer memory-chip makers agreed to pay $160 million to settle a suit alleging a four-year price-fixing conspiracy to artificially constrict the supply of DRAM (dynamic random access memory) chips to computer makers such as Dell and Apple. This control of the supply helped keep prices artificially high, producing higher profits for the conspiring companies.

Sellers may also be prohibited from using *predatory pricing*—selling below cost with the intention of punishing a competitor or gaining higher long-run profits by putting competitors out of business. This protects small sellers from larger ones who might sell items below cost temporarily or in a specific locale to drive them out of business.

Pricing Across Channel Levels

Laws also exist to prevent unfair *price discrimination* by ensuring that sellers offer the same price terms to customers at a given level of trade. The seller can also discriminate in its pricing if the seller manufactures different qualities of the same product for different retailers. The seller must prove that these differences are proportional. Price differentials may also be used to "match competition" in "good faith," provided the price discrimination is temporary, localized, and defensive rather than offensive.

Laws also prohibit *retail (or resale) price maintenance*—a manufacturer cannot require dealers to charge a specified retail price for its product. The seller can propose a manufacturer's *suggested* retail price to dealers. *Deceptive pricing* occurs when a seller states prices or price savings that mislead consumers or are not actually available to them. This might involve bogus reference or comparison prices, as when a retailer sets artificially high "regular" prices then announces "sale" prices close to its previous everyday prices.

Other deceptive pricing issues include *scanner fraud* and price confusion. The widespread use of scanner-based computer checkouts has led to increasing complaints of retailers overcharging their customers. Most of these overcharges result from poor management—a failure to enter current or sale prices into the system. Other cases, however, involve intentional overcharges. *Price confusion* results when firms employ pricing methods that make it difficult for consumers to understand just what price they are really paying. For example, consumers are sometimes misled regarding the real price of a home mortgage or car financing agreement. In other cases, important pricing details may be buried in the "fine print."

› **Deceptive pricing** – The widespread use of checkout scanners has led to increasing complaints of retailers overcharging their customers.

Reviewing Objectives and Key Terms

In this chapter, we examined some additional pricing considerations—new-product pricing, product mix pricing, price adjustments, and initiating and reacting to prices changes. A company sets not a single price but rather a *pricing structure* that covers its entire mix of products. This pricing structure changes over time as products move through their life cycles. The company adjusts product prices to reflect changes in costs and demand and account for variations in buyers and situations. As the competitive environment changes, the company considers when to initiate price changes and when to respond to them.

OBJECTIVE 1 Describe the major strategies for pricing new products. (pp. 344–346)

Pricing is a dynamic process, and pricing strategies usually change as the product passes through its life cycle. The introductory stage—setting prices for the first time—is especially challenging. The company can decide on one of several strategies for pricing innovative new products: it can use *market-skimming pricing* by initially setting high prices to "skim" the maximum amount of revenue from various segments of the market. Or it can use *market-penetrating pricing* by setting a low initial price to penetrate the market deeply and win a large market share. Several conditions must be set for either new-product pricing strategy to work.

OBJECTIVE 2 Explain how companies find a set of prices that maximizes the profits from the total product mix. (pp. 346–348)

When the product is part of a product mix, the firm searches for a set of prices that will maximize the profits from the total mix. In *product line pricing*, the company determines the price steps for the entire product line it offers. In addition, the company must set prices for *optional products* (optional or accessory products included with the main product), *captive products* (products that are required for using the main product), *by-products* (waste or residual products produced when making the main product), and *product bundles* (combinations of products at a reduced price).

OBJECTIVE 3 Discuss how companies adjust their prices to take into account different types of customers and situations. (pp. 349–355)

Companies apply a variety of *price adjustment strategies* to account for differences in consumer segments and situations. One is *discount and allowance pricing*, whereby the company establishes cash, quantity, functional, or seasonal discounts, or varying types of allowances. A second strategy is *segmented pricing*, where the company sells a product at two or more prices to accommodate different customers, product forms, locations, or times. Sometimes companies consider more than economics in their pricing decisions, using *psychological pricing* to better communicate a product's intended position. In *promotional pricing*, a company offers discounts or temporarily sells a product below list price as a special event, sometimes even selling below cost as a loss leader. Another approach is *geographical pricing*, whereby the company decides how to price to distant customers, choosing from alternatives such as *FOB-origin pricing*, *uniform-delivered pricing*, *zone pricing*, *basing-point pricing*, and *freight-absorption pricing*. Finally, *international pricing* means that the company adjusts its price to meet different conditions and expectations in different world markets.

OBJECTIVE 4 Discuss the key issues related to initiating and responding to price changes. (pp. 355–361)

When a firm considers initiating a *price change*, it must consider customers' and competitors' reactions. There are different implications to *initiating price cuts* and *initiating price increases*. Buyer reactions to price changes are influenced by the meaning customers see in the price change. Competitors' reactions flow from a set reaction policy or a fresh analysis of each situation.

There are also many factors to consider in responding to a competitor's price changes. The company that faces a price change initiated by a competitor must try to understand the competitor's intent as well as the likely duration and impact of the change. If a swift reaction is desirable, the firm should preplan its reactions to different possible price actions by competitors. When facing a competitor's price change, the company might sit tight, reduce its own price, raise perceived quality, improve quality and raise price, or launch a fighting brand.

OBJECTIVE 5 Overview the social and legal issues that affect pricing decisions. (pp. 361–363)
Many federal, state, and even local laws govern the rules of fair pricing. Also, companies must consider broader societal pricing concerns. The major public policy issues in pricing include potentially damaging pricing practices *within* a given level of the channel, such as price-fixing and predatory pricing. They also include pricing practices *across* channel levels, such as retail price maintenance, discriminatory pricing, and deceptive pricing. Although many federal and state statutes regulate pricing practices, reputable sellers go beyond what is required by law. Treating customers fairly is an important part of building strong and lasting customer relationships.

Key Terms

OBJECTIVE 1
Market-skimming pricing (or price skimming) (p 345)
Market-penetration pricing (p 345)

OBJECTIVE 2
Product line pricing (p 346)
Optional-product pricing (p 347)
Captive-product pricing (p 348)
By-product pricing (p 348)
Product bundle pricing (p 348)

OBJECTIVE 3
Discount (p 349)
Allowance (p 349)
Segmented pricing (p 349)
Psychological pricing (p 350)
Reference prices (p 350)
Promotional pricing (p 351)
Geographical pricing (p 352)
FOB-origin pricing (p 352)
Uniform-delivered pricing (p 352)
Zone pricing (p 353)
Basing-point pricing (p 353)
Freight-absorption pricing (p 353)
Dynamic pricing (p 353)

Discussing the Concepts

1. Compare and contrast market-skimming and market-penetration pricing strategies and discuss the conditions under which each is appropriate. (AACSB: Communication; Reflective Thinking)
2. Name and briefly describe the five product mix pricing decisions. (AACSB: Communication)
3. Explain how discounts and allowances differ from promotional pricing. (AACSB: Communication; Reflective Thinking)
4. Compare and contrast the geographic pricing strategies that companies use for customers located in different parts of the country or the world. Which strategy is best? (AACSB: Communication; Reflective Thinking)
5. What factors influence the prices a company charges in different countries? (AACSB: Communication)
6. Why would a company consider increasing its price? What precautions must it take to avoid being perceived as a price gouger? (AACSB: Communication)

Applying the Concepts

1. Identify three price-comparison shopping Web sites and shop for a specific model of a digital camera on all three sites. Compare the price ranges given at each site. Based on your search, determine a fair price for the camera. (AACSB: Communication; Use of IT)
2. Convert US$1.00 to the currencies of five other countries. (You can do this at www.xe.com.) What implications do currency exchange rates hold for setting prices in other countries? (AACSB: Communication; Use of IT; Reflective Thinking)
3. One psychological pricing tactic is just-below pricing. It is also called "9-ending" pricing because prices usually end in the number 9 (or 99). In a small group, have each member select five different products and visit a store to find the price of those items. Is there a variation among the items and stores with regard to 9-ending pricing? Why do marketers use this pricing tactic? (AACSB: Communication; Reflective Thinking)

Focus on Technology

The Internet is great for selling products and services. But don't make a pricing mistake online! Intercontinental Hotels mistakenly priced rooms at one of its four-star hotels near Venice, Italy, for 1 euro per night instead of the actual price of 150 euros per night. Internet users booked 1,400 nights before the mistake was realized. Intercontinental Hotels honored the reservations at a cost of 90,000 euros to the company. In Taiwan, an eight-hour online pricing snafu on Dell's Web site created tremendous problems for the company, such as 40,000 orders for a laptop computer priced at about one-fourth the intended price. Unlike Intercontinental Hotels, however, Dell refused to honor the erroneous price and offered a discount instead. The Taiwanese government disagreed, ordered Dell to honor the orders, and fined the company.

1. Find two other examples of online pricing mistakes. How did the companies handle the problems resulting from the pricing errors? (AACSB: Communication; Reflective Thinking)
2. Research the ways in which marketers protect against the consequences of online pricing errors and write a brief report summarizing what you learn. (AACSB: Communication; Reflective Thinking)

Focus on Ethics

You'd think that the farther you fly, the more expensive your airfare would be. According to U.S. Department of Transportation data, however, that's not the case. For example, the average cost of a 451-kilometer flight from Boston to Philadelphia was $342, which is $0.76 per kilometer. A 4,188-kilometer flight from Boston to Long Beach, California, cost $169, or $0.04 per kilometer! That's the average cost—passengers sitting next to each other are likely to have paid different prices. Many factors influence the pricing of airfares; distance has minor impact, even though two major expenses—fuel and labor—increase the longer the flight. In this example, one factor might be that the Boston–Philadelphia route averages 484 passengers per day, while the Boston–Long Beach route averages only 330 passengers per day.

Airlines claim they are just charging what the market will bear.

1. Should airlines be required to charge standard prices based on distance and equal airfares for passengers seated in the same class (such as economy or business class) on the same flight? What will likely happen to prices if the government requires airlines to base fares only on distance and passenger class? (AACSB: Communication; Ethical Reasoning; Reflective Thinking)
2. What factors account for the variation in airfares? Should airlines be permitted to get as much as they can for a seat? (AACSB: Communication; Reflective Thinking)

Marketing & the Economy

Pizza Hut

Restaurants of all kinds have scrambled to keep customers coming in during recent difficult economic times. Pizza Hut is in an unusual spot. It isn't exactly fast food, but it isn't quite full-service fare either. Pizza Hut has never been perceived as being on the low end of pizza prices. As the economy sagged, all these factors cooled down business for the red-roofed purveyor of pies. So Pizza Hut did what many companies did. It cut prices. At first, it shocked the pizza category with its "$10 any" promotion—any pizza, any size, any crust, any toppings, for just $10.

Customers really responded to the limited time offer. But as soon as the price deal ended, Pizza Hut's incremental promotional revenues disappeared. So the company has made more permanent adjustments to the new frugality reality. To increase customer loyalty, it has introduced everyday low prices. Most medium pizzas cost $8, most large pizzas cost $10, and most specialty pizzas cost $12; these price cuts represent up to 50 percent reductions from previous pricing. Under this new pricing, Pizza Hut expects that revenues will increase significantly. But the new pricing mechanism will require some time before it proves itself.

1. What are the implications of Pizza Hut's big price cuts for its brand image?
2. Can customer loyalty be generated through low prices?
3. Can Pizza Hut sustain such dramatically lower prices and still remain profitable?

Marketing by the Numbers

The recent weak economy caused many consumers to switch to lower-priced products. Although P&G had sales of $77 billion in 2009, many of its relatively expensive brands, such as Tide detergent and Secret deodorant, were stranded on store shelves. So, in 2010, P&G did the unthinkable: it slashed prices on many of its products, such as batteries (13.3 percent), liquid laundry detergents (5.1 percent), shampoos (5.4 percent), and conditioners (6.6 percent). The price cuts come at a cost, however, and sales must increase considerably just to break even or make the price cuts profitable.

1. P&G's average contribution margin before the price cuts was 20 percent. Refer to Appendix 2 and calculate the new contribution margin if prices are reduced 10 percent. (AACSB: Communication; Analytical Reasoning)
2. What level of total sales must P&G capture at the new price levels to maintain the same level of total contribution before the price reduction (that is, total contribution = $15.4 billion, which is 20 percent of $77 billion in sales)? (AACSB: Communication; Analytic Reasoning)

Video Case

Smashburger

Hamburgers are America's favorite food. Consumers spend more than $100 billion on beef sandwiches every year. Despite America's infatuation with burgers, there is considerable dissatisfaction with hamburger quality and value among consumers. Many customers are not happy with what is available at market-leading fast-food outlets. They want a better burger, and they won't hesitate to pay a higher price to get one. Enter Smashburger. Opened just a few years ago in Denver, Colorado, Smashburger is now a rapidly expanding chain of more than 100 stores in 17 states. And all this growth occurred during a severe economic downturn and despite Smashburger's average lunch check of $8. Many customers pay as much as $10 or $12 for a burger, fries, and shake. The Smashburger video shows how this small start-up has pulled off a seemingly impossible challenge. After viewing the video, answer the following questions.

1. Describe customer dissatisfaction with fast-food hamburger options. Why do people continue to consume burgers if they are not satisfied?
2. What effect does Smashburger's premium price have on consumer perceptions? How did a restaurant with a premium-priced product and little track record take off during a recession?
3. Is Smashburger's success based on novelty alone or will it continue to succeed?

Company Case

Coach: Riding the Wave of Premium Pricing

Victor Luis stood looking out the window of his office on 34th Street in Manhattan's Hell's Kitchen neighborhood. It had been just over a year since he had taken over as CEO of Coach, Inc., a position that had previously been held by Lewis Frankfort for 28 years. Under Frankfort's leadership, it seemed Coach could do no wrong. Indeed, over the previous decade, the 73-year-old company had seen its revenues skyrocket from about $1 billion to over $5 billion as its handbags became one of the most coveted luxury items for women in the United States and beyond. On top of that, the company's $1 billion bottom line—a 20 percent net margin—was typical. Coach's revenues made it the leading handbags seller in the nation. The brand's premium price and profit margins made the company a Wall Street darling.

Right around the time Luis took over, Coach's fortunes began to shift. Although the company had experienced promising results with expansion into men's lines and international markets, it had just recorded the fourth straight quarter of declining revenues in the United States, a market that accounted for 70 percent of its business. North American comparable sales were down by a whopping 21 percent over the previous year. Once the trendsetter, for two years in a row Coach lost market share to younger and more nimble competitors. Investors were jittery, causing Coach's stock price to drop by nearly 50 percent in just two years. After years of success, it now seemed that Coach could do little right.

Artisanal Origins

In a Manhattan loft in 1941, six artisans formed a partnership called Gail Leather Products and ran it as a family-owned business. Employing skills handed down from generation to generation, the group handcrafted a collection of leather goods, primarily wallets and billfolds. Five years later, the company hired Miles and Lillian Cahn, owners of a leather handbag manufacturing firm, and by 1950, Miles was running things.

As the business grew, Cahn took particular interest in the distinctive properties of the leather in baseball gloves. The gloves were stiff and tough when new, but with use they became soft and supple. Cahn developed a method that mimicked the wear-and- tear process, making a type of leather that was stronger, softer, and more flexible. As an added benefit, the worn leather also absorbed dye to a greater degree, producing deep, rich tones. When Lillian Cahn suggested adding women's handbags to the company's low-margin line of wallets, the Coach brand was born.

Over the next 20 years, Coach's uniquely soft and feminine cowhide bags developed a reputation for their durability. In 1985, the Cahns sold Coach to the Sara Lee Corporation, which housed the brand within its Hanes Group. Lewis Frankfort became Coach's director and took the brand into a new era of growth and development.

Under Frankfort's leadership, Coach grew from a relatively small company to a widely recognized global brand. This growth not only included new designs for handbags and new product lines, but a major expansion of outlets as well. By the time Frankfort stepped down, there were more than 900 Coach stores in North America, Asia, and Europe, with hundreds of Coach boutiques in department stores throughout those same markets as well as in Latin America, the Middle East, and Australia. In addition to the brick-and-mortar outlets, Coach had developed a healthy stream of online sales through its Web sites.

High Price Equals High Sales

With the expansion in Coach's product lines and distribution outlets, women everywhere were drawn to the brand's quality and style. But perhaps more than anything, they were attracted to the brand as a symbol of luxury, taste, and success. Over the years, Coach had taken great care to find an optimal price point, well above that of ordinary department store brands. Whereas stores that carried Coach products also sold mid-tier handbag brands for moderate prices, Coach bags were priced as much as five times higher.

It might seem that such a high price would scare buyers off. However, as Coach's reputation grew, women aspired to own its products. And although the price of a Coach bag is an extravagance for most buyers, it is still within reach for even middle-class women who want to splurge once in a while. And with comparable bags from Gucci, Fendi, or Prada priced five to ten times higher, a Coach bag is a relative bargain.

With its image as an accessible status symbol, Coach was one of the few luxury brands that maintained steady growth and profits throughout the Great Recession. And it did so without discounting its prices. Fearing that price cuts would damage the brand's image, Coach instead introduced its "Poppy" line at prices about 30 percent lower than regular Coach bags. Coach concentrated on its factory stores in outlet malls. And it maintained an emphasis on quality to drive perceptions of value. As a result, Coach's devoted customer base remained loyal throughout the tough times.

At about the same time, Coach also invested in new customers. It opened its first men's-only store, stocked with small leather goods, travel accessories, footwear, jewelry, and swimsuits. Coach also expanded men's collections in other stores. As a result, its revenue from men's products doubled in one year. The company saw similar success with international customers, pressing hard into Europe, China, and other Asian markets.

But just as it seemed that Coach was untouchable, the brand showed signs of frailty. Coach's U.S. handbag business started slowing down. During Luis's first year on the job, Coach's share of the U.S. handbag market fell from 19 percent to 17.5 percent—the second straight year for such a loss. During that same period, Michael Kors, Coach's biggest competitive threat, saw its market share increase from 4.5 percent to 7 percent. Up-and-comers Kate Spade and Tory Burch also saw increases. Since the U.S. market accounted for such a large portion of the company's business, overall revenue took a dip despite the brand's growth in new markets.

What's the Problem?

Many factors could be blamed. During the most recent holiday season, Coach had to contend with the same problem many other retailers faced—less traffic in shopping malls. But Kate Spade and Michael Kors, which operate their own stores and sell through department stores in malls just as Coach, experienced double-digit gains during the same period. Coach's performance also ran counter to the dynamics of the handbag and accessory market as a whole, which grew by nearly 10 percent over the previous year.

The difference in sales trends between Coach and its competitors have led some analysts to speculate that the long-time leader has lost its eye for fashion. "These guys are definitely losing share," said analyst Brian Yarbrough. "Fashionwise, they're missing the beat." Yarbrough isn't alone. Many others assert that, under the same creative direction for 17 years, Coach's designs have grown stale.

Then there is the issue of Coach's price structure—in short, Coach may have taken the premium price point too far. "Coach tried to eliminate coupon promotions tied directly to its discount outlets, which are the company's biggest source of revenue, and which attract customers looking to stretch their dollars," said one luxury retail expert. "The number of people willing and able to pay a premium for luxury brands, like Coach, is getting small as this weak economy continues." However, price alone would not explain why Coach's business slid at the same time that sales by comparably priced competitors rose. Additionally, while Coach's

North American revenues were down last year, sales of its high-end handbags (priced above $400) actually increased.

Some analysts have also questioned the effect of Coach's popularity on its image of exclusivity. A luxury brand's image and customer aspirations often rest on the fact that not everyone can afford it. However, Coach has become so accessible that anyone that wants a Coach product can usually find a way to buy one. This availability has been fostered by Coach's outlet stores—company-owned stores that carry prior season merchandise, seconds, and lower quality lines at much lower prices. With the number of customers drawn in by low prices, Coach's outlet stores now account for a sizable 60 percent of revenues and an even higher percentage of unit sales.

Although new as CEO, Luis has been with Coach for the past eight years and oversaw Coach's international expansion. And although Frankfort has stepped down, he is still involved as chairman of the board. Led by these seasoned fashion executives, Coach has a turnaround plan. For starters, the company has hired a new creative director who, according to Luis, is "providing a fashion relevance for the brand like we have never had." Both the fashion and investment worlds anxiously await the first designs from the new regime.

In addition to the creative and design changes, Coach is rebalancing its product portfolio. To win back shoppers, Coach will be positioned as a lifestyle brand with greater expansion into footwear, clothing, and accessories. Additionally, the company will increase the number of handbag offerings priced at $400 or more, a move that could raise the average price point of Coach's handbags. With all that the brand has at stake, those in charge will not give up easily. The question is, will the new strategy restore Coach to its former glory days?

Questions for Discussion

1. What challenges does Coach face relative to pricing its vast product line?
2. Based on principles from the chapter, explain how price affects customer perceptions of the Coach brand.
3. How has increased competition at Coach's price points affected the brand's performance?
4. Will the plan proposed by current Coach leadership be successful in reversing the brand's slide in market share? Why or why not?
5. What recommendations would you make to Coach?

Sources

Andrew Marder, "Coach, Inc. Can't Get It Together," *Motley Fool*, 30 April 2014, www.fool.com; Phil Wahba, "Coach Sales in North America Plummet as Market Share Erodes," *Reuters,* 22 January 2014, http://in.reuters.com; Ashley Lutz, "Coach Is Slipping Fast, and It Can All Be Traced to One Major Mistake," *Business Insider*, 22 October 2012, www.businessinsider.com, accessed May 2014.

Objective Outline

OBJECTIVE 1
Explain why companies use marketing channels and discuss the functions these channels perform.
Supply Chains and the Value Delivery Network (375–376)
The Nature and Importance of Marketing Channels (376–379)

OBJECTIVE 2
Discuss how channel members interact and how they organize to perform the work of the channel.
Channel Behavior and Organization (379–385)

OBJECTIVE 3
Identify the major channel alternatives open to a company.
Channel Design Decisions (386–390)

OBJECTIVE 4
Explain how companies select, motivate, and evaluate channel members.
Channel Management Decisions (391–393)

OBJECTIVE 5
Discuss the nature and importance of marketing logistics and integrated supply chain management.
Marketing Logistics and Supply Chain Management (394–401)

Chapter 12

Marketing Channels: Delivering Customer Value

Previewing the Concepts

We now arrive at the third marketing mix tool—distribution. Firms work with supply chain and marketing channels to create value for customers and build profitable customer relationships. As such, a firm's success depends not only on how well *it* performs but also on how well its *entire marketing channel* competes with competitors' channels. To be good at customer relationship management, a company must also be good at partner relationship man-agement. The first part of this chapter explores the nature of marketing channels, the marketer's channel design, and management decisions. We then examine physical distribution or logistics. In the next chapter, we'll look at two major channel intermediaries—retailers and wholesalers.

We'll start with a look at UNIQLO, the Japanese fast-clothing retailer that has grown through its effective procurement and supply operations, and retail expansion.

UNIQLO: Fast Channeling, Right Style

Casual wear chain UNIQLO, is a division of Japanese retail holding company, Fast Retailing. Headed by Tadashi Yanai, the parent company has grown into a $12.64 billion business, making it Asia's largest clothing retailer. UNIQLO makes up three-quarters of Fast Retailing's revenue, and is almost synonymous as the parent company.

UNIQLO opened its first store in suburban Japan in 1984. In the early 1990s, with the Japanese economy in a slump, UNIQLO's value-for-money clothing became a hit among Japanese who were trying to cut back on spending. By 1998, brimming with confidence, it opened its first sub-urban store in the young and trendy Harajuku district in Tokyo and it soon became a household name.

By 2016, UNIQLO had over 1,700 stores worldwide. While Japan still holds the majority of outlets at 55 percent, UNIQLO has expanded to China, Korea, and the Philippines in Asia; and the United States, United Kingdom, France, and even Russia. It opened its first New York store in 2006, followed by one in London in 2007.

> Finding the best sources for material procurement is important... To implement quality control, UNIQLO has a team of technical specialists, known as the Takumi Team, that goes to its factories.

It has been said that Yanai intensely studied Gap and was a great admirer of Mickey Drexler, former Gap CEO. The American company was purportedly the basis for UNIQLO's business model. Hence, it comes as no surprise that UNIQLO designs, manufactures, markets, and sells casual wear similar to Gap—can be worn by anyone, any day. Rather than be dictated by fashion trends, such as that adopted by competitors such as Zara, the company provides customers with the basic apparel piece such as the Oxford or polo shirt that they use to create their own style. It does not consider itself as a "fast fashion" brand, but as one that provides stable offerings over time.

UNIQLO has developed an original marketing and distribution channel. From developing raw materials to selling the final product—it undertakes and oversees all aspects itself. That means it does not have any other independent companies or intermediaries helping them to make their product available in the market. Its distribution channels include retail outlets and online shopping. This business approach is called Specialty-store or retailer of Private-label Apparel (SPA). It makes clothes that transcend all categories and social groups. Its designs are aimed at going beyond age, gender, occupation, or any other way that defines who people are. By sticking to quality products with basic designs, the company is able to create offerings with unique value and satisfy customers. Its online presence has totaled to sales of 25.5 billion yen ($249 million) in fiscal 2014, or 3.6 percent of total UNIQLO sales.

There are three principles by which it adheres to as a SPA. First, customer feedback is critical to what clothing is offered. The UNIQLO Customer Center receives about 90,000 comments from customers annually. Based on such feedback, products are improved upon. An example is its HEATTECH innerwear cotton clothing, known for heat retention and anti-perspiration qualities. After customers asked for a softer fabric and more color choice, UNIQLO developed the original HEATTECH fibers with a special milk protein to create a fabric that is smooth, soft, and comfortable. It also created a new synthetic fiber that can come in a range of vibrant colors.

Second, finding the best sources for material procurement is important. The UNIQLO Material Development Team scours the world to find high-quality materials at low costs through direct negotiations with and bulk purchases from material manufacturers. Such networking has seen UNIQLO secure high-quality long-staple cotton, harvested from only three percent of the world's cotton plants, for its extra-fine cotton, plain T-shirts. Since UNIQLO clothing does not go out of style as quickly as other fast fashion stores, it can buy in large quantities to keep costs low.

Third, it has an expert technical team that guides its factories to ensure quality. To implement quality control, UNIQLO has a team of technical specialists, known as the Takumi Team, that goes to its factories in China, Cambodia, Thailand, Vietnam, and Bangladesh for about four days every week, offering technical instruction and resolving any problems that may arise. Members of the Takumi Team are veteran craftsmen, boasting of many years of experience in the Japanese textile industry. For factories in China, quality is further ensured by having supervisors from its production department, based in Shanghai, make weekly visits to partner factories to check on the quality and progress of production.

These principles have helped UNIQLO outlets achieve better store layout and service. In-store, UNIQLOs staff has learned to say six phrases in order of a shopping experience:

- "Hello, my name is _______. How are you today?"
- "Did you find everything you were looking for?"
- "Let me know if you need anything. My name is _______."
- "Thank you for waiting."
- "Did you find everything you were looking for?"
- "Good bye. We hope to see you again soon."

The second and fifth phrases are repeated because they are required at two points during the shopping experience—on the floor and at checkout. Its large-quantity production and vibrant colors allow for items to be stacked from floor to ceiling, arranged in a rainbow of colors, giving an illusion that it comes in thousands of colors when the stacks of colors are repeated. Efficiency is practiced at the cashier with staff trained to complete every transaction in less than 60 seconds.

Beyond these three principles, UNIQLO has embarked on a global expansion strategy as sales growth fizzled in Japan. It signed up sports stars such as tennis player Novak Djokovic and golfer Adam Scott to raise the brand's profile.

As part of its marketing, each season UNIQLO conducts promotional campaigns for its core products such as fleece, Ultra Light Down, AIRism and HEATTECH. To ensure that its products, its unique qualities, and noteworthy features reach a larger audience and add to the value chain, UNIQLO uses marketing channels like the television and other electronic media. For example, weekly flyers in the Friday editions of Japan's national newspapers, which are delivered to most households, promote the apparel that will be discounted through Monday.

To increase its presence in the United States, 2014 saw Fast Retailing showing interest in acquiring American retailer J. Crew Group, run by Drexler, the man whom Yanai admired. This acquisition would give Fast Retailing a significant jump in market share in the United States. At that time, UNIQLO had only 17 stores in the United States. It had intentions to grow its U.S. sales to $10 billion by 2020. However, the acquisition did not materialize.

By early 2016, UNIQLO reported sluggish sales in Japan as well as overseas including China, Korea, and the United States. Its operations in Southeast Asia and Europe continue to do well.[1]

As the UNIQLO example shows, good distribution strategies can contribute strongly to customer value and create competitive advantage for a firm. However, not all, firms can bring value to customers by themselves. Instead, they must work closely with other firms in a larger value delivery network.

Supply Chains and the Value Delivery Network

Producing a product or service and making it available to buyers requires building relationships not just with customers, but also with key suppliers and resellers in the company's *supply chain.* This supply chain consists of "upstream" and

Value delivery network
The network made up of the company, suppliers, distributors, and ultimately customers who "partner" with each other to improve the performance of the entire system.

"downstream" partners. "Upstream" from the company is the set of firms that supply the raw materials, components, parts, information, finances, and expertise needed to create a product or service. Marketers, however, have traditionally focused on the "downstream" side of the supply chain—on the *marketing channels* or *distribution channels* that look forward toward the customer. Downstream marketing channel partners, such as wholesalers and retailers, form a vital connection between the firm and its customers.

A **value delivery network** is made up of the company, suppliers, distributors, and ultimately customers who "partner" with each other to improve the performance of the entire system. For example, in making and marketing its iPad Air, Apple manages an entire network of people within Apple plus suppliers and resellers outside the company who collaborate effectively to give final customers the lightness in weight.

❯ Apple relies on its team of employees as well as suppliers and resellers for a value delivery network.

This chapter focuses on marketing channels—on the downstream side of the value delivery network. However, it is important to remember that this is only part of the full value network. To bring value to customers, companies also need upstream supplier partners.

This chapter also examines four major questions concerning marketing channels: What is the nature of marketing channels and why are they important? How do channel firms interact and organize to do the work of the channel? What problems do companies face in designing and managing their channels? What role do physical distribution and supply chain management play in attracting and satisfying customers? In the next chapter, we will look at marketing channel issues from the viewpoint of retailers and wholesalers.

The Nature and Importance of Marketing Channels

Marketing channel (or distribution channel)
A set of interdependent organizations that help make a product or service available for use or consumption by the consumer or business user.

Few producers sell their goods directly to the final users. Instead, most use intermediaries to bring their products to market. They try to forge a **marketing channel** (or **distribution channel**)—a set of interdependent organizations that help make a product or service available for use or consumption by the consumer or business user.

A company's channel decisions directly affect every other marketing decision. Pricing depends on whether the company works with discount chains, uses high-quality specialty stores, or sells directly to consumers via the Web. The firm's sales force and communications decisions depend on how much persuasion, training, motivation, and support its channel partners need. Whether a company develops or acquires certain new products may depend on how well those products fit the capabilities of its channel members.

Companies often pay too little attention to their distribution channels. In contrast, some companies have used imaginative distribution systems to *gain* a competitive advantage. FedEx's creative and imposing distribution system made it a leader in express delivery. Amazon.com pioneered the sale of books and a wide range of other goods via the Internet. Apple turned the retail music business on its head by selling music via the Internet on iTunes.

Distribution channel decisions often involve long-term commitments to other firms. For example, companies such as Toyota or McDonald's can easily change their advertising, pricing, or promotion programs. They can scrap old products and introduce new ones as market tastes demand. But when they set up distribution channels through contracts with franchisees, independent dealers, or large retailers, they cannot readily replace these channels with company-owned stores or Web sites if conditions change. Therefore, management must design its channels carefully, with an eye on tomorrow's likely selling environment as well as today's.

How Channel Members Add Value

Why do producers give part of the selling job to channel partners? After all, doing so means giving up some control over how and to whom they sell their products. Producers use intermediaries because they create greater efficiency in making goods available to target markets. Through their contacts, experience, specialization, and scale of operation, intermediaries usually offer the firm more than it can achieve on its own.

Figure 12.1 shows how using intermediaries can provide economies. **Figure 12.1A** shows three manufacturers, each using direct marketing to reach three customers. This system requires nine different contacts. **Figure 12.1B** shows the three manufacturers working through one distributor, which contacts the three customers. This system requires only six contacts. In this way, intermediaries reduce the amount of work that must be done by both producers and consumers.

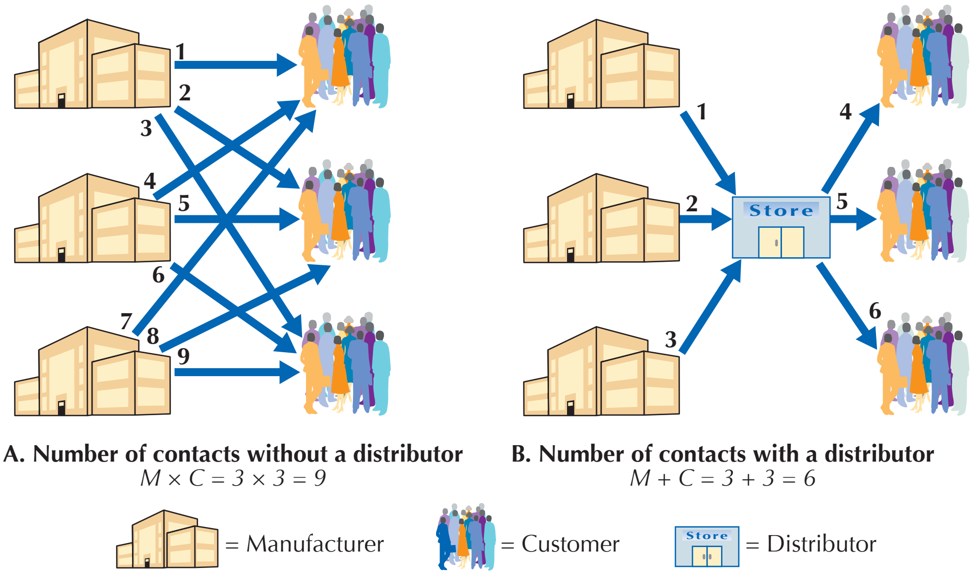


FIGURE 12.1
How using a marketing intermediary reduces the number of channel transactions

From the economic system's point of view, the role of marketing intermediaries is to transform the assortments of products made by producers into the assortments wanted by consumers. Producers make narrow assortments of products in large quantities, but consumers want broad assortments of products in small quantities. Marketing channel members buy large quantities from many producers and break them down into the smaller quantities and broader assortments wanted by consumers.

› Channel intermediaries such as supermarkets bring in personal and household items in bulk for consumers.

For example, Kao makes thousands of tubes of Bioré facial foam each day, but consumers buy only a tube at a time. So big food, convenience, and discount retailers, such as Park n Save, Watsons, and Aeon, buy Bioré facial foam by the truckload and stock it on their store's shelves. In turn, you can buy a single tube of Bioré facial foam, along with small quantities of toothpaste, shampoo, and other related products as you need them. Thus, intermediaries play an important role in matching supply and demand.

In making products and services available to consumers, channel members add value by bridging the major time, place, and possession gaps that separate goods and services from those who would use them. Members of the marketing channel perform many key functions. Some help to complete transactions:

- *Information*. Gathering and distributing marketing research and intelligence information about actors and forces in the marketing environment needed for planning and aiding exchange.
- *Promotion*. Developing and spreading persuasive communications about an offer.
- *Contact*. Finding and communicating with prospective buyers.
- *Matching*. Shaping and fitting the offer to the buyer's needs, including activities such as manufacturing, grading, assembling, and packaging.
- *Negotiation*. Reaching an agreement on price and other terms of the offer so that ownership or possession can be transferred.

› **Direct marketing** – Amway sells its products through direct sales agents and retail stores in China.

Others help to fulfill the completed transactions:

- *Physical distribution*. Transporting and storing goods.
- *Financing*. Acquiring and using funds to cover the costs of the channel work.
- *Risk taking*. Assuming the risks of carrying out the channel work.

Number of Channel Levels

Companies can design their distribution channels to make products and services available to customers in different ways. Each layer of marketing intermediaries that performs some work in bringing the product closer to the final buyer is a **channel level**. The *number of intermediary levels* indicates the *length* of a channel. **Figure 12.2A** shows several consumer distribution channels of different lengths. Channel 1, called a **direct marketing channel**, has no intermediary levels; the company sells directly to consumers. For example, Avon and Amway sell their products door to door, through home and office sales parties, and on the Web. The remaining channels in Figure 12.2A are **indirect marketing channels**, containing one or more intermediaries.

Figure 12.2B shows some common business distribution channels. The business marketer can use its own sales force to sell directly to business customers. Or it can sell to various types of intermediaries, who in turn sell to these customers. From the producer's point of view, more levels means less control and greater channel complexity. Japan, for instance, has numerous layers of distribution and has one of the most complex distribution systems.

Channel level
A layer of intermediaries that performs some work in bringing the product and its ownership closer to the final buyer.

Direct marketing channel
A marketing channel that has no intermediary levels.

Indirect marketing channel
A channel containing one or more intermediary levels.

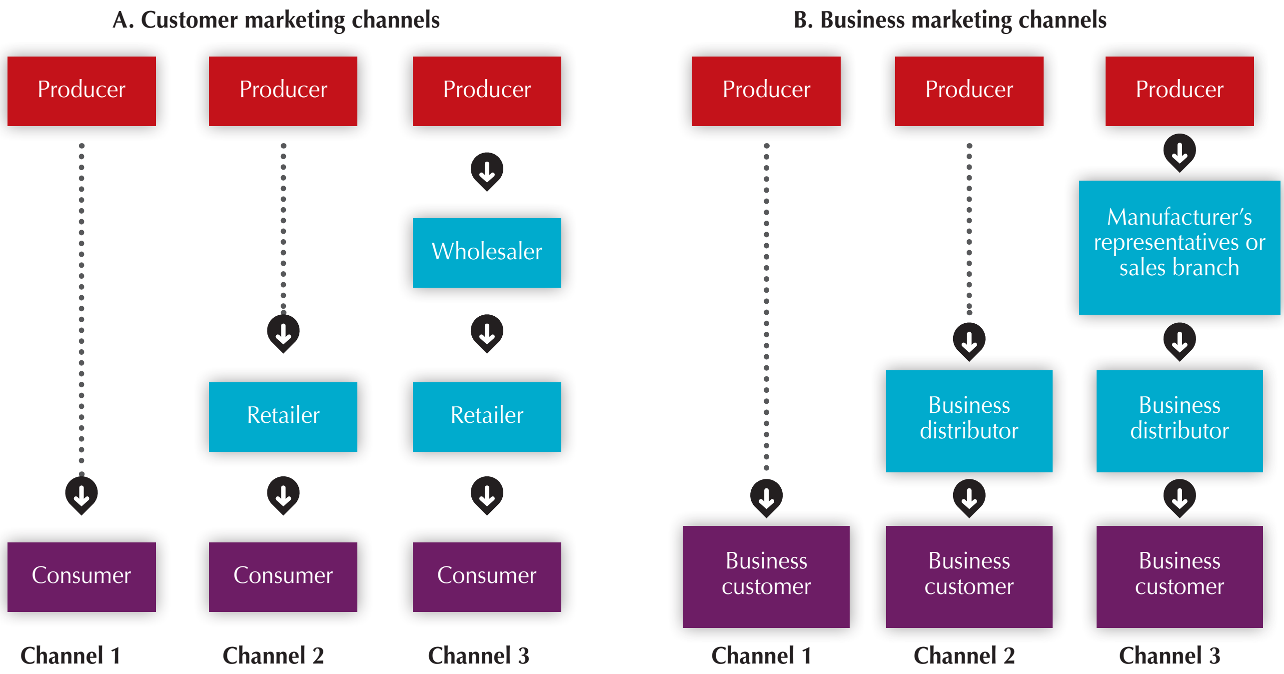


FIGURE 12.2
Consumer and business marketing channels

Channel Behavior and Organization

Distribution channels are complex behavioral systems in which people and companies interact to accomplish individual, company, and channel goals. Some channel systems consist of informal interactions among loosely organized firms. Others consist of formal interactions guided by strong organizational structures. Moreover, new types of intermediaries emerge and new channel systems evolve. Here we look at channel behavior and how members organize to do the work of the channel.

Channel Behavior

A marketing channel consists of firms that have partnered for their common good. Each channel member depends on the others. For example, a Toyota dealer depends on Toyota to design cars that meet consumer needs. In turn, Toyota depends on the dealer to attract consumers, persuade them to buy Toyota cars, and service cars after the sale. Each Toyota dealer also depends on other dealers to provide good sales and service that will uphold the brand's reputation. In fact, the success of individual Toyota dealers depends on how well the entire Toyota marketing channel competes with the channels of other auto manufacturers.

Each channel member plays a specialized role in the channel. For example, Samsung's role is to produce consumer electronics products that consumers will like and to create demand through national advertising. Electronic retailer Best Denki's role is to display these Samsung products in convenient locations, to answer buyers' questions, and to complete sales. The channel will be most effective when each member assumes the tasks it can do best.

Ideally, because the success of individual channel members depends on overall channel success, all channel firms should work together smoothly. They should understand and accept their roles, coordinate their activities, and cooperate to attain overall channel goals. Although channel members depend on one another, they

Channel conflict
Disagreement among marketing channel members on goals and roles—who should do what and for what rewards.

often act alone in their own short-run best interests. They often disagree on who should do what and for what rewards. Such disagreements over goals, roles, and rewards generate **channel conflict**. There are two types of conflicts:

- *Horizontal conflict* occurs among firms at the same level of the channel. For instance, some Toyota dealers in one territory might complain that dealers in another steal sales from them by pricing too low or by advertising outside their assigned territories.
- *Vertical conflict*, conflicts between different levels of the same channel, is even more common. For example, United Airlines tried to stimulate sales by selling directly to consumers in Hong Kong—it gave significant mileage bonuses and price discounts directly to them without proper coordination with Hong Kong travel agents. The travel agents protested by refusing to sell United Airlines tickets. Seeing the dramatic decline in sales, United Airlines reverted to the previous agent distribution system.

Some conflict in the channel takes the form of healthy competition. Such competition can be good for the channel—without it, the channel could become passive and non-innovative. But severe or prolonged conflict can disrupt channel effectiveness and cause lasting harm to channel relationships.

Vertical Marketing Systems

For a channel to perform well, each channel member's role must be specified and the channel conflict must be managed. The channel will perform better if it includes a firm, agency, or mechanism that provides leadership and has the power to assign roles and manage conflict.

Historically, *conventional distribution channels* lacked such leadership and power, often resulting in damaging conflict and poor performance. One of the biggest channel developments over the years has been the emergence of *vertical marketing systems* that provide channel leadership. **Figure 12.3** contrasts the two types of channel arrangements.

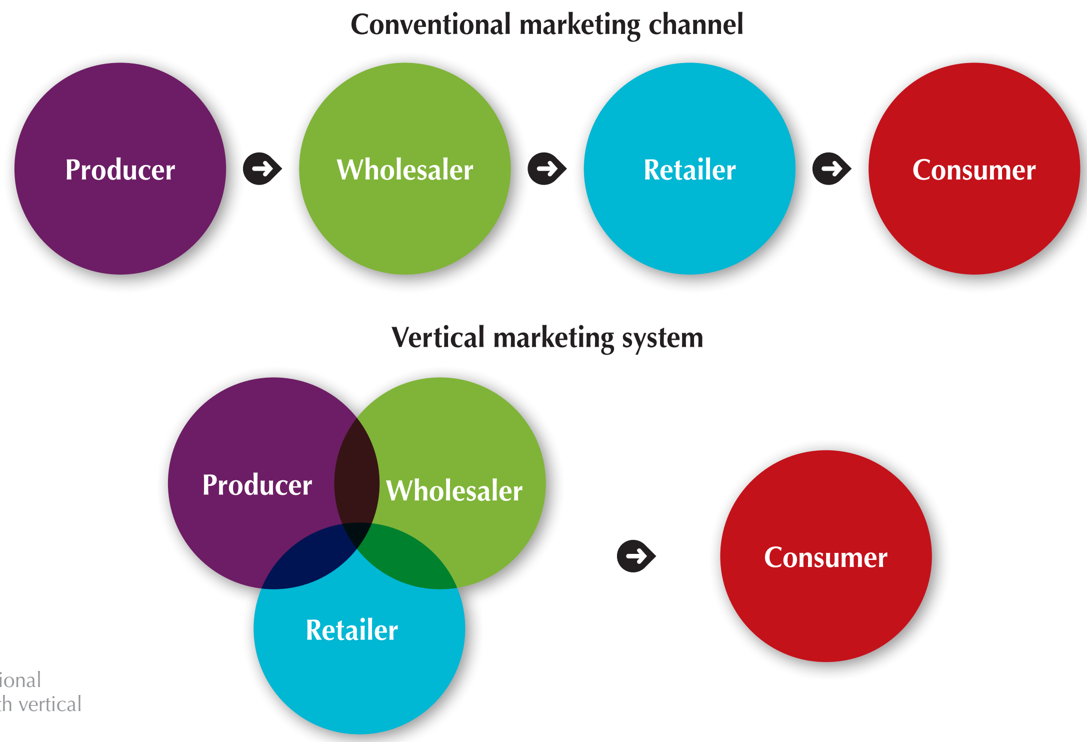


FIGURE 12.3
Comparison of conventional distribution channel with vertical marketing system

A **conventional distribution channel** consists of one or more independent producers, wholesalers, and retailers. Each is a separate business seeking to maximize its own profits, sometimes at the expense of the system as a whole. No channel member has much control over the other members, and no formal means exists for assigning roles and resolving channel conflict.

In contrast, a **vertical marketing system (VMS)** consists of producers, wholesalers, and retailers acting as a unified system. One channel member owns the others, has contracts with them, or wields so much power that they must all cooperate. The VMS can be dominated by the producer, wholesaler, or retailer.

There are three major types of VMSs: *corporate*, *contractual*, and *administered.*

Conventional distribution channel
A channel consisting of one or more independent producers, wholesalers, and retailers, each a separate business seeking to maximize its own profits.

Vertical marketing system (VMS)
A distribution channel structure in which producers, wholesalers, and retailers act as a unified system. One channel member owns the others, has contracts with them, or has so much power that they all cooperate.

Corporate VMS
A vertical marketing system that combines successive stages of production and distribution under single ownership—channel leadership is established through common ownership.

Corporate VMS

A **corporate VMS** integrates successive stages of production and distribution under a single ownership. Coordination and conflict management are attained through regular organizational channels.

In the early 1990s, Japanese *keiretsus* were good examples of corporate VMSs. These large Japanese trading firms offered every type of service imaginable. The managing director of Marenbanu once proudly said, "We have everything you need. If you need to build a bridge, we have engineering firms to design it for you. Our cement and steel factories will supply you the material needed. In case you lack money to finance it, we have banks to lend money to you."

However, a good corporate VMS has to be lean and economically efficient; otherwise, the damage of overexpansion and organization slacks may turn the VMS into a white elephant. Throughout Asia, corporate VMSs are common. In some ways, the big South Korean corporations and Chinese state-owned enterprises have similar setups. They need a good balance to achieve full vertical integrations with economic efficiencies.

Contractual VMS

A **contractual VMS** consists of independent firms at different levels of production and distribution who join together through contracts to obtain more economies or sales impact than each could achieve alone. Coordination and conflict management are attained through contractual agreements among channel members.

The **franchise organization** is the most common type of contractual relationship—a channel member called a *franchisor* links several stages in the production–distribution process. Almost every kind of business has been franchised—from hotels and fast-food restaurants to kindergartens and fitness centers.

There are three types of franchises. The first type is the *manufacturer-sponsored retailer franchise system*—for example, Toyota and its network of independent franchised dealers. The second type is the *manufacturer-sponsored wholesaler franchise system*—Coca-Cola licenses bottlers (wholesalers) in various markets who buy Coca-Cola syrup concentrate and then bottle and sell the finished product to retailers in local markets. The third type is the *service-firm-sponsored retailer franchise system*—examples are found in the auto-rental business (Hertz, Avis), the fast-food service business (McDonald's, Burger King), and the hotel business (Hilton).

Contractual VMS
A vertical marketing system in which independent firms at different levels of production and distribution join together through contracts to obtain more economies or sales impact than they could achieve alone.

Franchise organization
A contractual vertical marketing system in which a channel member, called a franchisor, links several stages in the production–distribution process.

Administered VMS

In an **administered VMS**, leadership is assumed not through common ownership or contractual ties but through the size and power of one or a few dominant channel members. Manufacturers of a top brand can obtain strong trade cooperation and support from resellers. For example, Procter & Gamble and Kraft can command

Administered VMS
A vertical marketing system that coordinates successive stages of production and distribution, not through common ownership or contractual ties, but through the size and power of one of the parties.

unusual cooperation from resellers regarding displays, shelf space, promotions, and price policies. Large retailers such as Wal-Mart can exert strong influence on the manufacturers that supply the products they sell.

Horizontal Marketing Systems

Horizontal marketing system
A channel arrangement in which two or more companies at one level join together to follow a new marketing opportunity.

Another form of channel development is the **horizontal marketing system**, in which two or more companies at one level join together to follow a new marketing opportunity. By working together, companies can combine their financial, production, or marketing resources to accomplish more than any one company could alone.

Companies might join forces with competitors or non-competitors. They might work with each other on a temporary or permanent basis, or they may create a separate company. For example, Philips, the global appliance manufacturer, exchanged shares with TCL, a Chinese appliance manufacturer, so that Philips could use TCL's 2,000 distribution outlets throughout China. Similarly, McDonald's joined forces with Sinopec, China's largest petrol retailer, to place restaurants at the latter's more than 30,000 petrol stations. The move accelerated McDonald's expansion into China and at the same time pulled hungry motorists into Sinopec petrol stations.[2]

› **Horizontal marketing systems** – McDonald's joined forces with Sinopec, China's largest petrol retailer, to place restaurants at its petrol stations.

Competitors Microsoft and Yahoo! have joined forces to create a horizontal Internet search alliance against Google. Microsoft's Bing will be the main search engine on Yahoo! Web sites, serving up the same search results listings available directly through Bing. In turn, Yahoo! will focus on creating a richer search experience by integrating strong Yahoo! content and providing tools to tailor the Yahoo! user experience. Although they haven't been able to do it individually, together Microsoft and Yahoo! may become a strong challenger to search leader Google.

› Microsoft and Yahoo! collaborated to develop Bing, a search engine to challenge Google.

Multichannel Distribution Systems

In the past, many companies used a single channel to sell to a single market or market segment. Today, with the proliferation of customer segments and channel possibilities, more companies have adopted **multichannel distribution systems**—

often called *hybrid marketing channels*. Such multichannel marketing occurs when a single firm sets up two or more marketing channels to reach one or more customer segments.

Figure 12.4 shows a multichannel distribution system. The producer sells directly to Consumer segment 1 using direct-mail catalogs, telemarketing, and the Internet, and reaches Consumer segment 2 through retailers. It sells indirectly to Business segment 1 through distributors and dealers and to Business segment 2 through its own sales force.

Multichannel distribution system
A distribution system in which a single firm sets up two or more marketing channels to reach one or more customer segments.

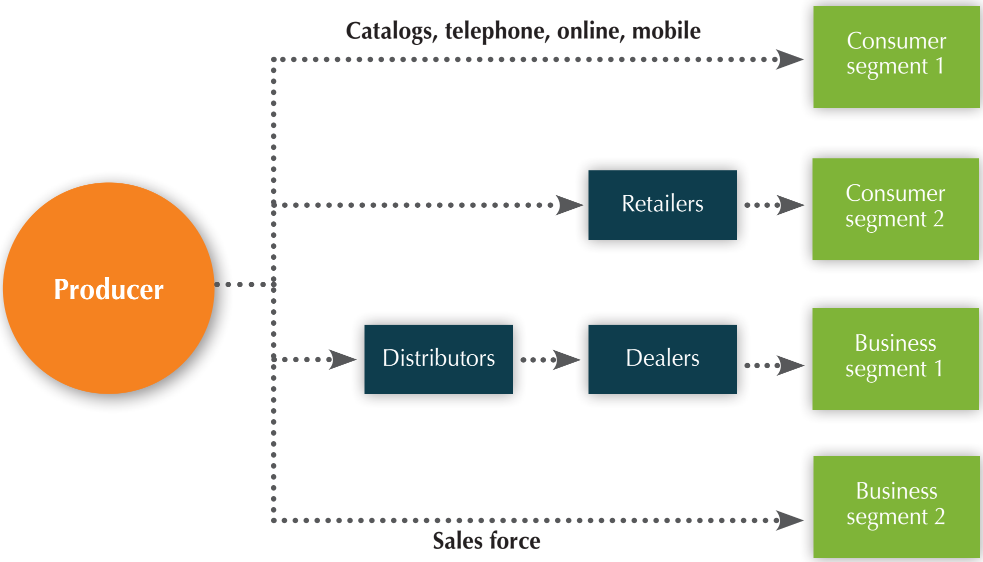


FIGURE 12.4
Multichannel distribution system

Almost every large company and many small ones distribute through multiple channels. Hewlett-Packard (HP) sales force sells the company's information technology equipment and services to large- and mid-sized business customers. HP also sells through a network of distributors and value-added resellers, which sell HP computers, systems, and services to a variety of special business segments. Home office buyers can buy HP personal computers and printers from specialty computer stores or large retailers. Business, government, and home office buyers can buy directly from HP by phone or online from the company's Web site, www.hp.com.

Multichannel distribution systems offer many advantages to companies facing large and complex markets. With each new channel, the company expands its sales and market coverage and gains opportunities to tailor its products and services to the specific needs of diverse customer segments. But such multichannel

In Asia, there is a variety of channel intermediaries from modern air-conditioned supermarkets to traditional non-air-conditioned wet markets or standalone stores.

systems are harder to control, and they generate conflict as more channels compete for customers and sales.

In most Asian markets, a multichannel distribution system is often employed by firms hoping to reach diverse customer segments. For example, the higher income earners as well as expatriates often shop at modern supermarkets in air-conditioned shopping centers. Many in the lower income group, however, may prefer to get better bargains at wet markets or smaller traditional retail stores.

Changing Channel Organization

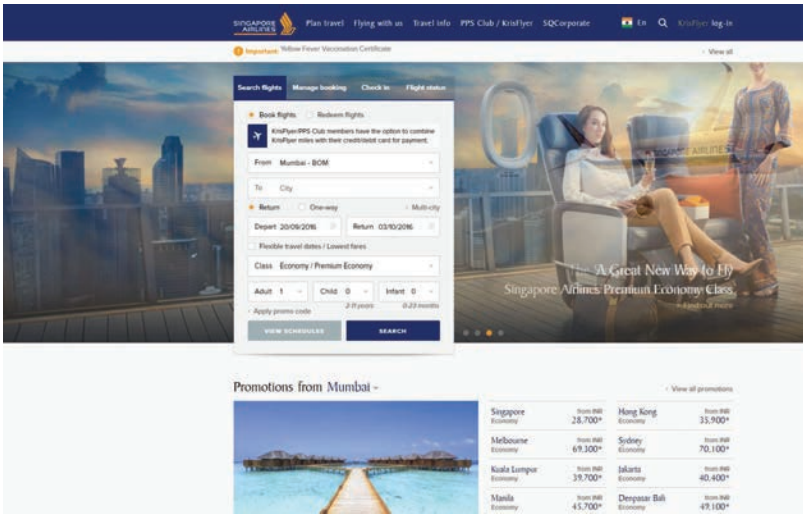
Disintermediation
The cutting out of marketing channel intermediaries by product or service producers, or the displacement of traditional resellers by radical new types of intermediaries.

Changes in technology and the explosive growth of direct and online marketing have affected the nature and design of marketing channels. One major trend is toward **disintermediation**. Disintermediation occurs when product or service producers cut out intermediaries and go directly to final buyers, or when radically new types of channel intermediaries displace traditional ones. For example, companies such as Singapore Airlines sell directly to final buyers, cutting retailers from their marketing channels.

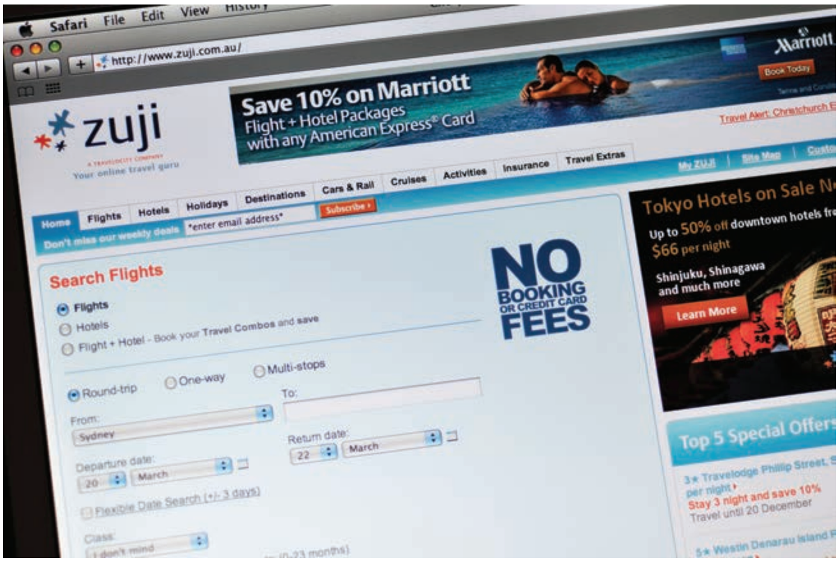
In other cases, new forms of resellers are displacing traditional intermediaries. For example, online marketing is taking business away from traditional brick-and-mortar retailers. Consumers can book hotel rooms and airline tickets from zuji.com. Online music download services such as iTunes have put traditional music-store retailers out of business. In turn, streaming music services such as Spotify are disintermediating digital download services. Amazon.com almost single-handedly bankrupted bookseller, Borders, in less than 10 years.

Disintermediation occurs also because more consumers are becoming familiar with technology. The Chinese are taking to online shopping because it is cheaper and more convenient. They are also gaining trust in the credit and payment system. Electrical appliance giant Suning opened an online shop, as did sportswear maker Li Ning, Gome Electrical Appliances, and Lenovo.[3]

Disintermediation presents problems and opportunities. To avoid being swept aside, traditional intermediaries must find new ways to add value to the



› **Disintermediation** – Besides selling tickets through travel agents and from its salespeople, Singapore Airlines also sells its tickets through its Web site.



› Online marketers such as zuji.com offer a new form of reselling, replacing traditional brick-and-mortar retailers.

supply chain. To remain competitive, product and service producers must develop new channel opportunities such as the Internet and other direct channels. However, developing these new channels often brings them into direct competition with their established channels, resulting in conflict.

To ease this problem, companies often look for ways to make going direct a plus for the entire channel. For example, Black & Decker knows that many customers might prefer to buy its power tools and outdoor power equipment online. But selling directly through its Web site would create conflicts with its retail partners. So, although Black & Decker's Web site provides detailed information about the company's products, you can't buy them there. Instead, the Black & Decker site refers you to resellers' Web sites and stores. Thus, Black & Decker's direct marketing helps both the company and its channel partners.

› Avoiding disintermediation problems – Black & Decker's Web site provides detailed information, but you can't buy any of the company's products there. Instead, Black & Decker refers you to resellers' Web sites and stores.

Channel Design Decisions

In designing marketing channels, manufacturers struggle between what is ideal and what is practical. A new firm with limited capital usually starts by selling in a limited market area. If successful, the new firm can branch out to new markets through the existing intermediaries. In smaller markets, the firm might sell directly to retailers; in larger markets, it might sell through distributors. In one part of the country, it might grant exclusive franchises; in another, it might sell through all available outlets. Then, it might add a Web store that sells directly to hard-to-reach customers. In this way, channel systems often evolve to meet market opportunities and conditions.

For maximum effectiveness, however, channel analysis and decision making should be more purposeful. **Marketing channel design** calls for analyzing consumer needs, setting channel objectives, identifying major channel alternatives, and evaluating them (see **Figure 12.5**).

Marketing channel design
Designing effective marketing channels by analyzing consumer needs, setting channel objectives, identifying major channel alternatives, and evaluating those alternatives.

Analyzing Consumer Needs
- Consider what consumer wants from channel
- Consider whether company has resources or skills to satisfy these needs
- Balance among consumer needs, feasibility and costs, and consumer price preferences

↓

Setting Channel Objectives
- Decide which segments to serve and the best channels to use
- Evaluate the nature of the company, its products, its marketing intermediaries, its competitors, and the environment

↓

Identifying Major Alternatives
- Consider type of intermediaries to use such as company sales force, manufacturer's agency, and industrial distributors
- Consider number of intermediaries to use at each level: intensive, exclusive, or selective distribution
- Consider responsibilities of channel members regarding mega price policies, conditions of sale, territorial rights, and specific services to be performed by each party

↓

Evaluating Major Alternatives
- Economy critieria: compare likely sales, costs, and profitability of different channel alternatives
- Control issues: give some control over the marketing of a product
- Adaptive criteria: keep the channel flexible enough to adapt to environmental changes

FIGURE 12.5
Designing a channel system

Analyzing Consumer Needs

Marketing channels are part of the overall *customer-value delivery network*. Each channel member and level adds value for the customer. Therefore, designing the marketing channel starts with finding out what target consumers want from the channel. Do consumers want to buy from nearby locations or are they willing to travel to more distant centralized locations? Would they rather buy in person, over the phone, through the mail, or online? Do they value breadth of assortment or do they prefer specialization? The faster the delivery, the greater the assortment provided, and the more add-on services supplied, the greater the channel's service level.

Providing the fastest delivery, greatest assortment, and most services may not be possible or practical. The company and its channel members may not have the resources or skills needed to provide all the desired services. Also, providing higher levels of service results in higher costs for the channel and higher prices for consumers. The company must balance consumer needs not only against the feasibility and costs of meeting these needs but also against customer price preferences. The success of discount retailing shows that consumers will often accept lower service levels in exchange for lower prices.

Setting Channel Objectives

Companies should state their marketing channel objectives in terms of targeted levels of customer service. Usually, a company can identify several segments that want different levels of service. The company should decide which segments to serve and the best channels to use in each case. In each segment, the company wants to minimize the total channel cost of meeting customer service requirements.

The company's channel objectives are also influenced by the nature of the company, its products, its marketing intermediaries, its competitors, and the environment. For example, the company's size and financial situation determine which marketing functions it can handle by itself and which it must give to intermediaries. Companies selling perishable products may require more direct marketing to avoid delays and too much handling.

In some cases, a company may want to compete in or near the same outlets that carry competitors' products. In other cases, producers may avoid the channels used by competitors. Mary Kay Cosmetics, for example, sells directly to consumers through more than 1 million independent beauty consultants worldwide rather than going head-to-head with other cosmetics makers for scarce positions in retail stores. When Google launched the Nexus One, it was not only to enter the mobile phone market but also to venture into online retailing. By selling directly, Google believed it could forge closer ties with its customers, potentially allowing it to offer other products and services in the future.[4]

Finally, environmental factors such as economic conditions and legal constraints may affect channel objectives and design. For example, in a depressed economy, producers want to distribute their goods in the most economical way, using shorter channels and dropping unnecessary services that add to the final price of the goods.

› Designing the marketing channel – Marketers need to know what target consumers want from the channel, for example, whether they prefer to buy in person or online.

Identifying Major Alternatives

When the company has defined its channel objectives, it should next identify its major channel alternatives in terms of *types* of intermediaries, the *number* of intermediaries, and the *responsibilities* of each channel member.

Types of Intermediaries

A firm should identify the types of channel members available to carry out its channel work. For example, suppose a manufacturer has developed an audio device that detects poor mechanical connections in machines with moving parts. Company executives think this product would have a market. The company's current sales force is small, and the problem is how best to reach these different industries. The following channel alternatives might emerge:

- *Company sales force.* Expand the company's direct sales force. Assign outside salespeople to territories and have them contact all prospects in the area, or develop separate company sales forces for different industries. Or, add an inside telesales operation, in which telephone salespeople handle small- or mid-size companies.
- *Manufacturer's agency.* Hire manufacturer's agents—independent firms whose sales forces handle related products from many companies—in different regions or industries to sell the new test equipment.
- *Industrial distributors.* Find distributors in different regions or industries who will buy and carry the new line. Give them exclusive distribution, good margins, product training, and promotional support.

Number of Marketing Intermediaries

Companies must also determine the number of channel members to use at each level. Three strategies are available: intensive distribution, exclusive distribution, and selective distribution.

- **Intensive distribution** is a strategy in which producers stock their products in as many outlets as possible. Usually, these products are convenience products and common raw materials. These products must be available where and when consumers want them. For example, toothpaste, candy, and other similar items are sold in millions of outlets to provide maximum brand exposure and consumer convenience. Kraft, Coca-Cola, Unilever, and other consumer goods companies distribute their products in this way.
- **Exclusive distribution** occurs when a producer gives only a limited number of dealers the exclusive right to distribute its products in their territories. Exclusive distribution is often found in the distribution of luxury automobiles and prestige women's clothing. For example, Bentley dealers are few and far between—even large cities may have only one dealer. By granting exclusive distribution, Bentley gains stronger distributor selling support and more control over dealer prices, promotion, credit, and services. Exclusive distribution also enhances the car's image and allows for higher markups.
- **Selective distribution** occurs when producers use more than one, but fewer than all, of the intermediaries who are willing to carry a company's products. By using selective distribution, they can develop good working relationships with selected channel members and expect a better-than-average selling effort. Selective distribution gives producers good market coverage with more control and less cost than does intensive distribution.

Intensive distribution
Stocking the product in as many outlets as possible.

Exclusive distribution
Giving a limited number of dealers the exclusive right to distribute the company's products in their territories.

Selective distribution
The use of more than one, but fewer than all, of the intermediaries who are willing to carry the company's products.

Exclusive distribution – Luxury car makers such as Bentley sell exclusively through a limited number of retailers. Such limited distribution enhances the car's image and generates stronger retail support.

Responsibilities of Channel Members

The producer and the intermediaries need to agree on the terms and responsibilities of each channel member. They should agree on price policies, conditions of sale, territorial rights, and specific services to be performed by each party. The producer should establish a list price and a fair set of discounts for intermediaries. It must define each channel member's territory, and it should be careful about where it places new resellers.

Mutual services and duties need to be spelled out carefully, especially in franchise and exclusive distribution channels. For example, McDonald's provides franchisees with promotional support, a record-keeping system, training at its Hamburger University, and general management assistance. In turn, franchisees must meet company standards for physical facilities, cooperate with new promotion programs, provide requested information, and buy specified food products.

Evaluating the Major Alternatives

Each alternative should be evaluated against economic, control, and adaptive criteria. Using *economic criteria*, a company compares the likely sales, costs, and profitability of different channel alternatives. What will the investment required by each channel alternative be, and what returns will result? The company must also consider *control issues*. Using intermediaries usually means giving them some control over the marketing of the product, and some intermediaries take more control than others. Finally, the company must apply *adaptive criteria*. Channels often involve long-term commitments, yet the company wants to keep the channel flexible so that it can adapt to environmental changes. Thus, a channel involving long-term commitments should be greatly superior on economic and control grounds.

Designing International Distribution Channels

International marketers face many additional complexities in designing their channels. Each country has its own unique distribution system that has evolved over time and changes very slowly. These channel systems can vary widely from country to country. Thus, global marketers must usually adapt their channel strategies to the existing structures within each country.

- In some markets, the distribution system is complex and hard to penetrate, consisting of many layers and large numbers of intermediaries. Consider Japan:

> **Japanese distribution system –** The Japanese distribution system stems from the early 17th century, when cottage industries and a fast-growing urban population spawned a merchant class. Despite its economic achievements, the Japanese distribution system has remained remarkably faithful to its antique pattern. It encompasses a wide range of wholesalers and other agents, brokers, and retailers, differing more in number than in function from their American counterparts. There is a myriad of tiny retail shops, with many wholesalers supplying to them. These are layered tier after tier, many more than most U.S. executives would think necessary. For example, a bar of soap may move through three wholesalers plus a sales company after it leaves the manufacturer and before it reaches the retail outlet. The distribution network reflects the traditionally closer ties among many Japanese companies. Much emphasis is placed on personal relationships. Although these channels appear inefficient and cumbersome, they seem to serve the Japanese customer well. Lacking storage space in their small homes, most Japanese homemakers shop several times a week and prefer convenient and more personal neighborhood shops.[5]

› The Japanese distribution system – It has remained remarkably traditional. A profusion of tiny retail shops are supplied by a large number of small wholesalers.

■ In other markets, distribution systems in developing countries may be scattered and inefficient, or altogether lacking. For example, inadequate distribution systems in China have led most companies to profitably access only a small portion of its huge population located in the country's most affluent cities. "China is a very decentralized market," notes a China trade expert. "[It's] made up of two dozen distinct markets sprawling across 2,000 cities. Each has its own culture … It's like operating in an asteroid belt." China's distribution system is so fragmented that logistics costs amount to 15 percent of the nation's GDP, far higher than in most other countries. After years of effort, even Wal-Mart executives admit that they have been unable to assemble an efficient supply chain in China.[6] ■ Sometimes local conditions such as customs or government regulation can greatly restrict how a company distributes products in global markets. For example, restrictive government regulations caused problems for Avon in China. Fearing the growth of multi-level marketing schemes, the Chinese government banned door-to-door selling. Forced to abandon its traditional direct marketing approach and in trying to retail its products, Avon fell behind its more store-oriented competitors. The Chinese government has since given Avon permission to sell door to door.[7]

› International channel complexities – Barred from door-to-door selling in China, Avon fell behind trying to sell through retail stores. Here, Chinese consumers buy Avon products from a supermarket in Shanghai. The Chinese government has since given Avon permission to sell door to door.

International marketers face a wide range of channel alternatives. Designing efficient and effective channel systems between and within various country markets poses a difficult challenge.

Channel Management Decisions

Once the company has reviewed its channel alternatives and decided on the best channel design, it must implement and manage the chosen channel. Channel management calls for the selection, management, and motivation of individual channel members, and the evaluation of their performance over time (see **Figure 12.6**).

FIGURE 12.6
Channel management decisions

Selecting Channel Members

Producers vary in their ability to attract qualified marketing intermediaries. Some producers have no trouble signing up channel members. For example, when Toyota first introduced its Lexus line in the United States, it had no trouble attracting new dealers. At the other extreme are producers who have to work hard to line up enough qualified intermediaries.

When selecting intermediaries, the company should determine what characteristics distinguish the better ones. It would want to evaluate each channel member's experience in number of years in business, other lines carried, growth and profit record, cooperativeness, and reputation. If the intermediaries are sales agents, the company will want to evaluate the number and character of other lines carried and the size and quality of the sales force. If the intermediary is a retail store that wants exclusive or selective distribution, the company will want to evaluate the store's customers, location, and future growth potential.

Managing and Motivating Channel Members

Once selected, channel members must be continuously managed and motivated to do their best. Some companies practice strong *partner relationship management (PRM)* to forge long-term partnerships with channel members. This creates a marketing system that meets the needs of both the company *and* its marketing partners.

In managing its channels, a company must convince distributors that they can succeed better by working together as a part of a cohesive value delivery system. Thus, Procter & Gamble and Amazon.com work together to accomplish their joint goal of selling consumer package goods profitably online. Amazon operates within P&G warehouses to reduce distribution costs and speed up delivering, benefitting both the partnering companies and the customers they jointly serve.

Similarly, Samsung's Information Technology Division works closely with value-added resellers through the industry-leading Samsung Power Partner Program (P3).

Samsung – The Samsung P3 creates close partnerships with key value-added resellers (VARs)—channel members that assemble IT solutions for their own customers using products from Samsung and other manufacturers. Through this program, Samsung provides extensive presale, selling, and postsale tools and support to some 17,255 registered North American VAR partners at one of three levels—Silver, Gold, and Platinum. For example, Platinum partners—those selling $500,000 or more of Samsung's IT products per year—receive access to a searchable online product and pricing database and downloadable marketing materials. They can tap into partner-only Samsung training programs, special seminars, and conferences. A dedicated Samsung P3 team helps partners find good sales prospects and initiate sales. Then, a dedicated Samsung field sales rep works with each partner to close deals, and inside sales reps provide the partner with information and technical support. Finally, the P3 rewards high-performing reseller-partners with rebates, discount promotions, bonuses, and sales awards. In all, the P3 turns important VARs into strong, motivated marketing partners by helping them to be more effective and profitable at selling Samsung.[8]

Many companies are installing integrated high-tech partner relationship management (PRM) systems to coordinate their whole-channel marketing efforts. Just as they use customer relationship management (CRM) software systems to help manage relationships with important customers, companies use PRM and supply chain management software to help recruit, train, organize, manage, motivate, and evaluate relationships with channel partners.

Evaluating Channel Members

The producer must regularly check channel member performance against standards such as sales quotas, average inventory levels, customer delivery time, treatment of damaged and lost goods, cooperation in company promotion and training programs, and services to the customer. The company should recognize and reward intermediaries who are performing well and adding good value for consumers. Those who perform poorly should be assisted or, as a last resort, replaced. A company may periodically "requalify" its intermediaries and prune the weaker ones.

Finally, manufacturers need to be sensitive to their dealers. Those who treat their dealers poorly risk not only losing dealer support but also causing some legal problems. The American handbags and accessories brand, Kate Spade, for instance, has boutiques in Hong Kong and Singapore. However, it also has an online site that allows Hong Kongers and Singaporeans to buy its merchandise at a lower price than that sold in its Asian boutiques. This has caused some lost sales for its dealers. Kate Spade has since stopped honoring online purchases that require delivery to Hong Kong and Singapore so that its boutique sales are protected.

The next section describes various rights and duties pertaining to manufacturers and their channel members.

Public Policy and Distribution Decisions

For the most part, companies are legally free to develop whatever channel arrangements that suit them. Many producers and wholesalers like to develop exclusive channels for their products. In Asia, where counterfeit brands are common, the use of exclusive distributor rights enables a firm to better control its products in the marketplace. When the seller allows only certain outlets to carry its products, its strategy is called *exclusive distribution* (see **Figure 12.7**). When the seller requires that these dealers do not handle competitors' products, its strategy is called *exclusive dealing*. Both parties can benefit from exclusive arrangements: the seller obtains more loyal and dependable outlets, and the dealers obtain a steady source of supply and stronger seller support. But exclusive arrangements also exclude other producers from selling to these dealers.

FIGURE 12.7
Exclusive distribution arrangements – Types and advantages

Exclusive dealing often includes *exclusive territorial agreements*. The producer may agree not to sell to other dealers in a given area, or the buyer may agree to sell only in its own territory. The first practice is normal under franchise systems as a way to increase dealer enthusiasm and commitment. The second practice, whereby the producer tries to keep a dealer from selling outside its territory, has become a major legal issue.

Producers of a strong brand sometimes sell it to dealers only if the dealers will take some or all of the rest of the line. This is called full-line forcing. Such *tying agreements* are not necessarily illegal, but they tend to lessen competition substantially. The practice may prevent consumers from freely choosing among competing suppliers of these other brands.

Finally, producers are free to select their dealers, but their right to terminate dealers is somewhat restricted. In general, sellers can drop dealers "for cause." However, they cannot drop dealers if, for example, the dealers refuse to cooperate in a doubtful legal arrangement, such as exclusive dealing or tying agreements.

Marketing Logistics and Supply Chain Management

In a global marketplace, selling a product is sometimes easier than getting it to customers. Companies must decide on the best way to store, handle, and move their products and services so that they are available to customers in the right assortments, at the right time, and in the right place. Physical distribution and logistics effectiveness have a major impact on both customer satisfaction and company costs. Here we consider the nature and importance of logistics management in the supply chain, goals of the logistics system, major logistics functions, and the need for integrated supply chain management.

Nature and Importance of Marketing Logistics

Marketing logistics (or physical distribution)
The tasks involved in planning, implementing, and controlling the physical flow of materials, final goods, and related information from points of origin to points of consumption to meet customer requirements at a profit.

Supply chain management
Managing upstream and downstream value-added flows of materials, final goods, and related information among suppliers, the company, resellers, and final consumers.

Marketing logistics—also called **physical distribution**—involves planning, implementing, and controlling the physical flow of goods, services, and related information from points of origin to points of consumption to meet customer requirements at a profit. It involves getting the right product to the right customer in the right place at the right time. It starts with the marketplace and works backwards to the factory, or even to sources of supply. Marketing logistics involves not only *outbound distribution* (moving products from the factory to resellers and ultimately to customers) but also *inbound distribution* (moving products and materials from suppliers to the factory) and *reverse distribution* (moving broken, unwanted, or excess products returned by consumers or resellers). That is, it involves the entire **supply chain management**—managing upstream and downstream value-added flows of materials, final goods, and related information among suppliers, the company, resellers, and final consumers, as shown in **Figure 12.8**.

The logistics manager's task is to coordinate the activities of suppliers, purchasing agents, marketers, channel members, and customers. These activities include forecasting, information systems, purchasing, production planning, order processing, inventory, warehousing, and transportation planning.

Companies today are placing greater emphasis on logistics for several reasons:

- Companies can gain a powerful competitive advantage by using improved logistics to give customers better service or lower prices.
- Improved logistics can yield tremendous cost savings to both the company and its customers. As much as 20 percent of an average product's price is accounted for by shipping and transport alone.
- The explosion in product variety has created a need for improved logistics management. A hypermarket can carry more than 100,000 products, 30,000 of which are grocery products. Ordering, shipping, stocking, and controlling such a variety of products presents a sizable logistics challenge.

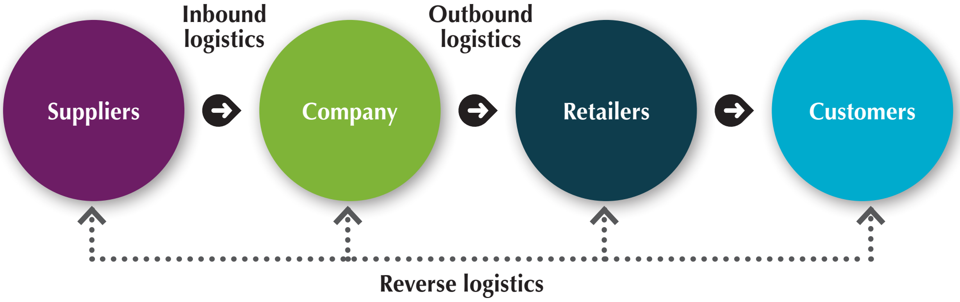


FIGURE 12.8
Supply chain management

- Improvements in information technology have created opportunities for major gains in distribution efficiency. Companies are using sophisticated supply chain management software, Web-based logistics systems, point-of-sale scanners, uniform product codes, satellite tracking, and electronic transfer of order and payment data. Such technology allows them to quickly and efficiently manage the flow of goods, information, and finances through the supply chain.
- Logistics affects the environment and a firm's environmental sustainability efforts. Transportation, warehousing, packaging, and other logistics functions are typically the biggest supply chain contributors to the company's environmental footprint. They also provide an area for cost savings. Developing a *green supply chain* is not only environmentally responsible but can also be profitable.

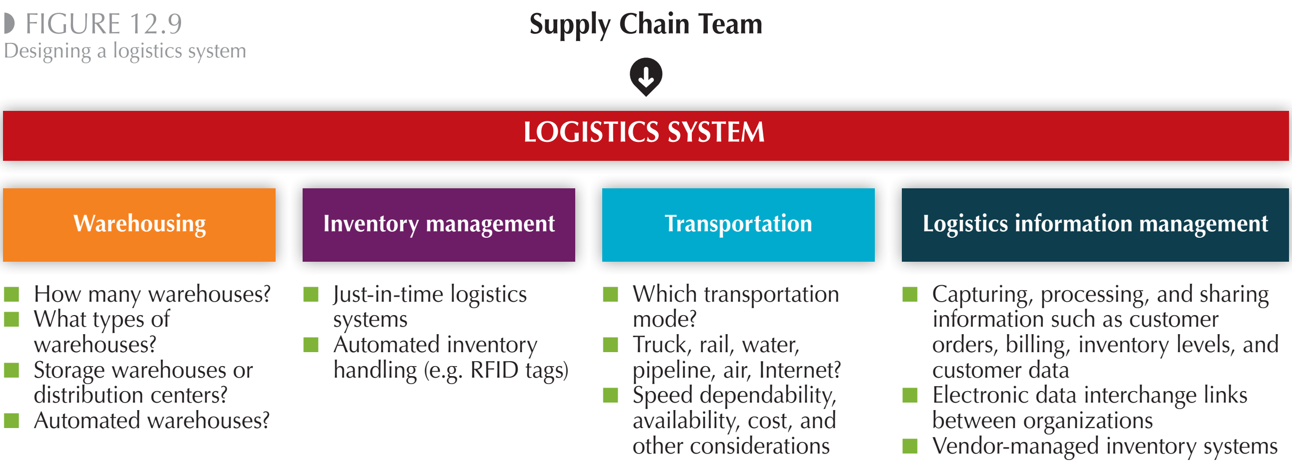
Goals of the Logistics System

The goal of marketing logistics is to provide a *targeted* level of customer service at the least cost. A company must first research the importance of various distribution services to customers and then set desired service levels for each segment. The objective is to maximize *profits*, not sales. Therefore, the company must weigh the benefits of providing higher levels of service against the costs. More generally, some companies offer less service than their competitors and charge a lower price. Other companies offer more service and charge higher prices to cover higher costs.

Major Logistics Functions

Given a set of logistics objectives, the company is ready to design a logistics system that will minimize the cost of attaining these objectives. The major logistics functions include *warehousing*, *inventory management*, *transportation*, and *logistics information management* (see **Figure 12.9**).

FIGURE 12.9
Designing a logistics system



Warehousing

Production and consumption cycles rarely match. Hence, most companies must store their tangible goods while they wait to be sold. For example, manufacturers of school books and apparel run their factories all year long and store up products for the heavy school reopening season. The storage function overcomes differences in needed quantities and timing, ensuring that products are available when customers are ready to buy them.

A company must decide on *how many* and *what types* of warehouses it needs and *where* they will be located. The company might use either *storage warehouses* or *distribution centers*. Storage warehouses store goods for moderate to long periods. **Distribution centers** are designed to move goods rather than just store them. They are large and highly automated warehouses designed to receive goods from various plants and suppliers, take orders, fill them efficiently, and deliver goods to customers as quickly as possible.

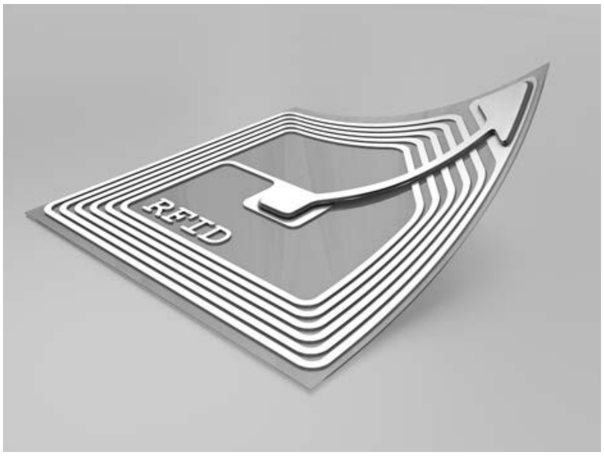
Distribution center
A large, highly automated warehouse designed to receive goods from various plants and suppliers, take orders, fill them efficiently, and deliver goods to customers as quickly as possible.

Inventory Management

Inventory management also affects customer satisfaction. Managers must maintain the delicate balance between carrying too little inventory and carrying too much. With too little stock, the firm risks not having products when customers want to buy. To remedy this, the firm may need costly emergency shipments or production. Carrying too much inventory results in higher-than-necessary inventory-carrying costs and stock obsolescence. Thus, in managing inventory, firms must balance the costs of carrying larger inventories against resulting sales and profits.

Many companies have greatly reduced their inventories and related costs through *just-in-time* logistics systems. With such systems, producers and retailers carry only small inventories of parts or merchandise, often only enough for a few days of operations. For example, Dell, a master just-in-time producer, carries just two to three days of inventory, whereas competitors might carry 40 days or even 60.[9] New stock arrives exactly when needed, rather than being stored in inventory until being used. Just-in-time systems require accurate forecasting along with fast, frequent, and flexible delivery so that new supplies will be available when needed. However, these systems result in substantial savings in inventory-carrying and handling costs.

Marketers are always looking for new ways to make inventory management more efficient. Handling inventory will soon become fully automated. For example, RFID or "smart tag" technology, by which small transmitter chips are embedded in or placed on products and packaging, may be used. "Smart" products could make the entire supply chain—which accounts for nearly 75 percent of a product's cost—intelligent and automated.



› Logistics technology – RFID or "smart tag" technology could make the entire supply chain intelligent and automated.

Companies using RFID would know, at any time, exactly where a product is located physically within the supply chain. "Smart shelves" not only tell them when it's time to reorder, but also place the order automatically with their suppliers. Such exciting new information technology applications will revolutionize distribution as we know it. Many large and resourceful marketing companies, such as Procter & Gamble, IBM, Wal-Mart, and Levi Strauss are investing heavily to make the full use of RFID technology a reality.[10]

Transportation

The choice of transportation carriers affects the pricing of products, delivery performance, and condition of the goods when they arrive—all of which will affect customer satisfaction. In shipping goods to its warehouses, dealers, and customers, the company can choose among five main transportation modes: truck, rail, water, pipeline, and air, along with an alternative mode for digital products—the Internet.

Trucks are highly flexible in their routing and time schedules, and they can usually offer faster service than railroads. They are efficient for short hauls of high-value merchandise. The more advanced carriers offer satellite tracking, 24-hour shipment information, logistics planning software, and "border ambassadors" who expedite cross-border shipping operations. In China, McKinsey observed that goods shipped by road are three times less likely to suffer damage than those shipped on trains. Much of the damage occurs during handling at either end, when the goods are transferred between trucks and railcar.[11]

Railroads, in general, are the conventional and most reliable carriers in Asia. They are one of the most cost-effective modes for shipping large amounts of bulk products—coal, sand, minerals, and farm and forest products—over long distances. Railroads have increased their customer services by designing new equipment to handle special categories of goods, providing flatcars for carrying truck trailers by rail (piggyback), and providing in-transit services such as the diversion of shipped goods to other destinations en route and the processing of goods en route.

› Railroads – In Asia, railroads are one of the most cost-effective modes of shipping large amounts of bulk products such as coal.

Water carriers transport large amounts of goods by ships and barges on coastal and inland waterways. Although the cost of water transportation is very low for shipping bulky, low-value, non-perishable products such as sand, coal, grain, oil, and metallic ores, water transportation is the slowest mode and may be affected by the weather.

Pipelines are a specialized means of shipping petroleum, natural gas, and chemicals from sources to markets. Most pipelines are used by their owners to ship their own products.

Air carriers are the least used transportation mode because of high air-freight rates. But air freight is ideal when speed is needed or distant markets must be reached. Among the most frequently air-freighted products are perishables (fresh fish, cut flowers) and high-value, low-bulk items (technical instruments, jewelry). Companies find that air freight also reduces inventory levels, packaging costs, and the number of warehouses needed.

The *Internet* carries digital products from producer to customer via satellite, cable modem, or telephone wire. Software firms, the media, music companies, and education all make use of the Internet to transport digital products. Although these firms primarily use traditional transportation to distribute CDs, newspapers, and more, the Internet holds the potential for lower product distribution costs. Whereas planes, trucks, and trains move freight and packages, digital technology moves information bits.

Shippers also use **intermodal transportation**—combining two or more modes of transportation. *Piggyback* describes the use of rail and trucks; *fishyback*, water and trucks; *trainship*, water and rail; and *airtruck*, air and trucks. Combining modes provides advantages that no single mode can deliver. Each combination offers advantages to the shipper. For example, not only is piggyback cheaper than trucking alone but it also provides flexibility and convenience.

Intermodal transportation
Combining two or more modes of transportation.

In choosing a transportation mode for a product, shippers must balance many considerations: speed, dependability, availability, cost, and others. Thus, if a shipper needs speed, air and truck are the prime choices. If the goal is low costs, then water or pipeline might be best.

Logistics Information Management

Companies manage their supply chains through information. Channel partners often link up to share information and to make better joint logistics decisions. From a logistics perspective, information flows such as customer orders, billing, inventory levels, and even customer data are closely linked to channel performance.

The company wants to design a simple, accessible, fast, and accurate process for capturing, processing, and sharing channel information.

Information can be shared and managed in many ways—by mail or telephone, through salespeople, or through traditional or Internet-based *electronic data interchange (EDI)*, computerized exchange of data between organizations. Wal-Mart, for example, maintains EDI links with almost all of its 91,000 suppliers.[12]

In some cases, suppliers may be asked to generate orders and arrange deliveries for their customers. Many large retailers such as Wal-Mart work closely with major suppliers such as Procter & Gamble to set up *vendor-managed inventory (VMI)* systems or *continuous inventory replenishment* systems. Using VMI, the customer shares real-time data on sales and current inventory levels with the supplier. The supplier then takes full responsibility for managing inventories and deliveries. Such systems require close cooperation between the buyer and seller.

Integrated Logistics Management

Integrated logistics management
The logistics concept that emphasizes teamwork, both inside the company and among all the marketing channel organizations, to maximize the performance of the entire distribution system.

Today, more companies are adopting the concept of **integrated logistics management**. This concept recognizes that providing better customer service and trimming distribution costs requires *teamwork*, both within the company and among all the marketing channel organizations. Within the company, various departments must work closely together to maximize the company's own logistics performance. Outside, the company must integrate its logistics system with those of its suppliers and customers to maximize the performance of the entire distribution system.

Cross-Functional Teamwork Inside the Company

In most companies, responsibility for various logistics activities is assigned to many different departments—marketing, sales, finance, operations, purchasing. Too often, each function tries to optimize its own logistics performance without regard for the activities of the other functions. However, transportation, inventory, warehousing, and order-processing activities interact, often in an inverse way. Lower inventory levels reduce inventory-carrying costs. But they may also reduce customer service and increase costs from stockouts, back orders, special production runs, and costly fast-freight shipments. Because distribution activities involve strong trade-offs, decisions by different functions must be coordinated to achieve better overall logistics performance.

› Logistics management
– Lower inventory levels reduce inventory-carrying costs, but they may also reduce customer service and increase costs from stockouts, back orders, and costly fast-freight shipments.

The goal of integrated supply chain management is to harmonize all of the company's logistics decisions. Close working relationships among departments can be achieved in several ways. Some companies have created permanent logistics committees made up of managers responsible for different physical distribution activities. Companies can also create supply chain manager positions that link the logistics activities of functional areas. For example, Procter & Gamble has created supply managers who manage all of the supply chain activities for each of its product categories. Many companies have a vice president of logistics with cross-functional authority. Finally, companies can employ sophisticated, system-wide supply chain management software. The important thing is that the company must coordinate its logistics and marketing activities to create high market satisfaction at a reasonable cost.

Building Logistics Partnerships

Companies must do more than simply improve their own logistics. They must also work with other channel partners to improve whole-channel distribution. The members of a marketing channel are linked closely in creating customer value and building customer relationships. One company's distribution system is another company's supply system. The success of each channel member depends on the performance of the entire supply chain. For example, IKEA can create its stylish but affordable furniture and deliver the "IKEA lifestyle" only if its entire supply chain—consisting of thousands of merchandise designers and suppliers, transport companies, warehouses, and service providers—operates at maximum efficiency and customer-focused effectiveness.

Smart companies coordinate their logistics strategies and forge strong partnerships with suppliers and customers to improve customer service and reduce channel costs. Many companies have created *cross-functional*, *cross-company teams*. For example, Procter & Gamble works closely with its counterparts to find ways to squeeze costs out of their distribution system. Working together benefits not only P&G and its distributors but also their final consumers. Similarly, Gap, Nike, and many global brands that source production capacity from Asian countries, particularly China, are investing huge amounts of executive time and money in their logistics systems to retain or improve their competitive advantage as their operations continue to grow.

› Logistics partnerships – IKEA's success is partly dependent on developing a partnership with its suppliers, transport companies, warehouses, and service providers.

Third-Party Logistics

Most big companies love to make and sell their products. But many do not like the associated logistics "grunt work." They detest the bundling, loading, unloading, sorting, storing, reloading, transporting, customs clearing, and tracking required to supply their factories and to get products out to customers. Hence, they outsource some or all of their logistics to **third-party logistics (3PL) providers**.

Third-party logistics (3PL) provider
An independent logistics provider that performs any or all of the functions required to get a client's product to market.

These companies, such as UPS Supply Chain Solutions, FedEx Logistics, or Li & Fung, help clients to tighten up sluggish, overstuffed supply chains, slash inventories, and get products to customers more quickly and reliably. For example, Li & Fung's Total Value-Added Package provides clients with a wide range of services from product design and development, through raw material and factory sourcing, production planning and management, as well as quality assurance and export documentation to shipping consolidation (see **Real Marketing 12.1**).

According to a survey of chief logistics executives at Fortune 500 companies, 82 percent of these companies use third-party logistics (also called *3PL*, *outsourced logistics*, or *contract logistics*) services.[13] Companies use third-party logistics providers for several reasons. First, because getting the product to market is their main focus, these providers can often do it more efficiently and at lower cost. Outsourcing typically results in 15 percent to 30 percent of cost savings. Second, outsourcing logistics frees a company to focus more intensely on its core business. Finally, integrated logistics companies understand increasingly complex logistics environments. This can be especially helpful to companies attempting to expand their global market coverage. For example, companies distributing their products across China face a bewildering array of environmental challenges that affect logistics, including finding the best combination of land transport and packaging standards. By outsourcing its logistics, a company can gain a complete China distribution system without incurring the costs, delays, and risks associated with setting up its own system.

Real Marketing 12.1

Li & Fung:
Beyond Managing Supply Chain

› **Third-party logistics** – Li & Fung manages global supply chains for leading brands and retailers.

Li & Fung is the leading consumer goods design, development, sourcing, and a logistics company for major retailers and brands around the world.

Founded in Guangzhou in 1906, the company started as a trading company by Li To-ming, the silent partner, and Fung Pak-liu. In the early 1970s, Fung's two grandsons, one armed with a doctoral degree and the other with an MBA from Harvard, returned to help their family business. Now helmed by William Fung, whose older brother Victor had retired as the Chairman in 2011, Li & Fung made a profit of $785 million on a $20.75 billion turnover.

From its humble beginnings, Li & Fung now coordinates the manufacture and supply of time-sensitive consumer goods through a network of 15,000 suppliers in over 40 countries from its Hong Kong headquarters. As the ultimate middleman, Li & Fung offers several lessons in supply chain management. It harnesses its buying power by buying the right products or raw materials just-in-time, coordinating with multiple production locations, and shortening delivery cycles.

With its intimate market knowledge, experienced sourcing professionals, cutting-edge technology, and state-of-the-art information systems, Li & Fung ensures that all orders are delivered on time, on budget, and according to customers' specifications.

For instance, to fulfill an order of 10,000 garments from a European retailer, Li & Fung may buy yarn from Korea and have it woven and dyed in Taiwan. Then, based on quota considerations and labor conditions, it may ship these raw materials to five Thai factories to make into fabric before cutting into garments. The order can be modified at each step of production. Before the fabric is cut, the customer can change the color, or before the garment is cut, the customer can change its design. The completed garments are then assembled for quality control checks. Li & Fung then organizes export documentation and shipping. Effectively, Li & Fung customizes the value chain to meet their customers' needs with "just-in-time" precision.

Such “just-in-time” convenience means that retailers can afford to offer trendy products. Traditionally, retail stores rotate their inventory only four times a year, in keeping with the four seasonal trends. However, with trends getting shorter, retailers are stuck with a large inventory that has gone out of fashion.

By reducing the cycle time from nine to three months and allowing for “just-in-time” modifications, retailers know better which trend is in and avoid purchasing a lot of inventory that customers do not want. They can place orders when they are more certain of demand resulting in lower inventory costs and minimizing markdowns for inventory clearance.

Beyond serving as a source-trading business, Li & Fung provides another value. It realized that it has to get closer to the customer by offering new services between the factory and the selling floor. LF USA was established as an onshore distribution business to house its global brands business, design studios, logistics operations, and provide a showroom space for the 350 labels it manages including shoes by Coach, Inc. and licensed brands such as children’s apparel under Tommy Hilfiger, Timberland, Nautica, and Calvin Klein.

Besides these recognized brands, Li & Fung also has private labels as well as proprietary brands. The latter involves producing designs on behalf of celebrities. It has deals with singing superstars such as Jennifer Lopez and Beyonce, and fashion icon Rachel Zoe. It also has deals with companies that have licenses from Disney, Marvel, Hasbro, Hello Kitty, and Pokémon.

It success has seen Li & Fung serving about 40 percent of the merchandise in a U.S. mall. Though its name is never seen, it is behind many of the clothes people wear and the things at home.

To sustain its growth momentum, its then president, Bruce Rockowitz, stresses the importance of reinvention every three years. Top management goes through a year-long process of thinking up what can be changed, including throwing everything out and starting from scratch. They draw up different scenarios and anticipate how trade will be.

In 2014, Li & Fung spun off Global Brands Group to manage the 350 labels and expand its licence portfolio to sell clients such as Macy’s and Target. Rockowitz stepped down at Li & Fung to become CEO of Global Brands. William Fung sees this move as strategic. Li & Fung’s core business is in sourcing and managing the supply chain for retailers. This is different from nurturing brands, which is what Global Brands will do.

Despite such success and growth, Li & Fung remains faithful to its Asian roots. William Fung states, “In many ways, we are an MNC but we see ourselves as an Asian-based MNC . . . Our hardware and systems are Western. Our values are very Chinese. We value loyalty, we value long service, we value entrepreneurship.”

Sources

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Reviewing Objectives and Key Terms

Some companies pay too little attention to their distribution channels, but others have used imaginative distribution systems to gain competitive advantage. A company's channel decisions directly affect every other marketing decision. Management must make channel decisions carefully, incorporating today's needs with tomorrow's likely selling environment.

OBJECTIVE 1 Explain why companies use marketing channels and discuss the functions these channels perform. (pp. 375–379)

In creating customer value, a company can't do it alone. It must work within an entire network of partners—a value delivery network—to accomplish this task. Individual companies and brands don't compete; their entire value delivery networks do.

Most producers use intermediaries to bring their products to market. They forge a *marketing channel* (or *distribution channel*)—a set of interdependent organizations involved in the process of making a product or service available for use or consumption by the consumer or business user. Through their contacts, experience, specialization, and scale of operation, intermediaries usually offer the firm more than it can achieve on its own.

Marketing channels perform many key functions. Some help *complete* transactions by gathering and distributing *information* needed for planning and aiding exchange, developing and spreading persuasive *communications* about an offer, performing *contact* work (finding and communicating with prospective buyers), *matching* (shaping and fitting the offer to the buyer's needs), and entering into a *negotiation* to reach an agreement on price and other terms of the offer so that ownership can be transferred. Other functions help to *fulfill* the completed transactions by offering *physical distribution* (transporting and storing goods), *financing* (acquiring and using funds to cover the costs of the channel work), and *risk taking* (assuming the risks of carrying out the channel work).

OBJECTIVE 2 Discuss how channel members interact and how they organize to perform the work of the channel. (pp. 379–385)

The channel will be most effective when each member assumes the tasks it can do best. Ideally, because the success of individual channel members depends on overall channel success, all channel firms should work together smoothly. They should understand and accept their roles, coordinate their goals and activities, and cooperate to attain overall channel goals. By cooperating, they can more effectively sense, serve, and satisfy the target market.

In a large company, the formal organization structure assigns roles and provides needed leadership. But in a distribution channel composed of independent firms, leadership and power are not formally set. Traditionally, distribution channels have lacked the leadership needed to assign roles and manage conflict. In recent years, however, new types of channel organizations have appeared that provide stronger leadership and improved performance.

OBJECTIVE 3 Identify the major channel alternatives open to a company. (pp. 386–390)

Channel alternatives vary from direct selling to using one, two, three, or more intermediary *channel levels*. Marketing channels face continuous and sometimes dramatic change. Three of the most important trends are the growth of *vertical*, *horizontal*, and *multichannel marketing systems*. These trends affect channel cooperation, conflict, and competition.

Channel design begins with assessing customer channel service needs and company channel objectives and constraints. The company then identifies the major channel alternatives in terms of the *types* of intermediaries, the *number* of intermediaries, and the *channel responsibilities* of each. Each channel alternative must be evaluated according to economic, control, and adaptive criteria. *Channel management* calls for selecting qualified intermediaries and motivating them. Individual channel members must be evaluated regularly.

OBJECTIVE 4 Explain how companies select, motivate, and evaluate channel members. (pp. 391–393)

Producers vary in their ability to attract qualified marketing intermediaries. Some producers have no trouble signing up channel members. Others have to work hard to line up enough qualified intermediaries. When selecting intermediaries, the company should evaluate each channel member's qualifications and select those that best fit its channel objectives.

Once selected, channel members must be continuously motivated to do their best. The company must sell not only *through* the intermediaries but also *with* them. It should forge strong partnerships with channel members to create a marketing system that meets the needs of both the manufacturer *and* the partners.

OBJECTIVE 5 Discuss the nature and importance of marketing logistics and integrated supply chain management. (pp. 394–401)

Marketing logistics (or *physical distribution*) is an area of potentially high cost savings and improved customer satisfaction. Marketing logistics addresses not only *outbound distribution* but also *inbound distribution* and *reverse distribution*. That is, it involves the entire *supply chain management*—managing value-added flows between suppliers, the company, resellers, and final users. No logistics system can both maximize customer service and minimize distribution costs. Instead, the goal of logistics management is to provide a *targeted* level of service at the least cost. The major logistics functions include *warehousing*, *inventory management*, *transportation*, and *logistics information management*.

The *integrated supply chain management concept* recognizes that improved logistics requires teamwork in the form of close working relationships across functional areas inside the company and across various organizations in the supply chain. Companies can achieve logistics harmony among functions by creating cross-functional logistics teams, integrative supply manager positions, and senior-level logistics executives with cross-functional authority. Channel partnerships can take the form of cross-company teams, shared projects, and information-sharing systems. Today, some companies are outsourcing their logistics functions to third-party logistics (3PL) providers to save costs, increase efficiency, and gain faster and more effective access to global markets.

Key Terms

OBJECTIVE 1
Value delivery network (p 376)
Marketing channel (or distribution channel) (p 376)
Channel level (p 378)
Direct marketing channel (p 378)
Indirect marketing channel (p 378)

OBJECTIVE 2
Channel conflict (p 380)
Conventional distribution channel (p 381)
Vertical marketing system (VMS) (p 381)
Corporate VMS (p 381)
Contractual VMS (p 382)
Franchise organization (p 381)
Administered VMS (p 381)
Horizontal marketing system (p 382)
Multichannel distribution system (p 382)
Disintermediation (p 384)

OBJECTIVE 3
Marketing channel design (p 385)
Intensive distribution (p 388)
Exclusive distribution (p 388)
Selective distribution (p 388)

OBJECTIVE 4
Marketing channel management (p 391)

OBJECTIVE 5
Marketing logistics (or physical distribution) (p 394)
Supply chain management (p 394)
Distribution center (p 396)
Intermodal transportation (p 397)
Integrated logistics management (p 398)
Third-party logistics (3PL) provider (p 399)

Discussing the Concepts

1. Describe the key functions performed by marketing channel members. (AACSB: Communication)
2. Compare and contrast direct and indirect marketing channels and discuss the types of *flows* in a distribution channel. (AACSB: Communication)
3. What is a franchise organization? Discuss the types of franchise organizations and give an example of each. (AACSB: Communication; Reflective Thinking)
4. Describe the three strategies available regarding the number of intermediaries and discuss the types of products for which each is appropriate. (AACSB: Communication; Reflective Thinking)
5. Discuss the complexities international marketers face when designing channels in other countries. (AACSB: Communication)
6. List and briefly describe the major logistics functions. Give an example of a decision a logistics manager would make for each major function. (AACSB: Communication; Reflective Thinking)

Applying the Concepts

1. ExerWise, a new company marketing a high-end Ab Toner exercise machine, is considering direct marketing versus selling through a sporting-goods retailer. As the buyer for the retailer, explain the functions your retail chain can offer to ExerWise.
2. Assume you are selling fresh Korean strawberries to a variety of retailers through a produce wholesale distributor. Form a small group and have each member assume one of the following roles: berry farmer, wholesaler, and grocery retailer. In your role, discuss three things that might have recently angered you about the other channel members. Take turns voicing your gripes and attempting to resolve the conflict.
3. Visit http://www.youtube.com/watch?v_eob532iEpqk and watch the "The Future Market" video. What impact will RFID tags have on each major logistical function? What are the biggest current obstacles in adopting this technology? (AACSB: Communication; Use of IT; Reflective Thinking)

Focus on Technology

Brewing craft beer is both an art and a science, and Sonia Collin, a Belgian researcher, is trying to devise a way for this highly perishable beer to have a longer shelf life. If successful, brewers can ship more beer across longer distances. Hoping to boost exports of homegrown products, the Belgian government is investing $7 million for research, with $1.7 million of that allocated to Ms Collins' research. A $250,000 tasting machine in her laboratory identifies the chemical compounds in a sample of beer, which allows researchers to recommend using organic ingredients, adjusting the oxygen and yeast levels, and reducing the amount of time the beer is at high temperatures in the brewing process. Although pasteurization and bottling methods allow giants such as Heineken and Anheuser to export their brews, aficionados prefer the more delicate flavor of craft beers. But craft brews don't travel well—time and sunlight are their worst enemies—so they are limited to local distribution. Most craft beers lose flavor in less than three months.

1. Describe the channel of distribution for a craft beer from Belgium to your city or town. How many channel levels will be involved? (AACSB: Communication; Reflective Thinking)
2. Discuss the options facing Belgian craft brewers desiring to sell their products in the United States if researchers cannot discover a way to sufficiently extend the shelf life of craft beers. (AACSB: Communication; Reflective Thinking)

Focus on Ethics

Tension is escalating between apparel retailers and suppliers during the economic recovery. Retailers previously placed orders almost a year in advance, and suppliers produced high volumes cheaply. Now many retailers are placing small initial orders, and if styles take off with consumers, they quickly reorder—a tactic known as "chasing." Teen retailer Aeropostale has been buying conservatively and chasing for items that are hot with buyers. Appropriate inventory levels in the apparel industry have always been difficult to predict, but it appears that retailers are pushing this worry back to suppliers.

1. Discuss the concerns of suppliers (that is, garment makers) and retailers in the apparel channel of distribution. Is it fair that retailers should expect suppliers to respond so quickly? Is it fair that suppliers should demand long lead times? (AACSB: Communication; Ethical Reasoning; Reflective Thinking)
2. What type of channel conflict does this represent? Are there any benefits from this conflict? (AACSB: Communication; Reflective Thinking)

Marketing & the Economy

Expedia.com

When the travel business takes a hit, so do travel intermediaries. As individuals and businesses have cut back their travel budgets over the past few years, travel Web sites in general face financial difficulties. With Priceline.com returning to its "Name your own price" roots, competition is becoming tougher than ever. Even Expedia, the market leader, has had to drastically reformulate its strategy to survive. To keep customers from bypassing travel sites and booking directly with airlines, Expedia permanently eliminated its $10 booking fee. Most recently, it has engaged in a new branding campaign called "Where you book matters," which targets frequent leisure travelers and seeks to earn their loyalty. Compared to Priceline's singular focus on price, Expedia is aiming higher up on the food chain. It wants to establish itself as the generic place to shop for all things travel, highlighting its full range of services. In a market driven by frugality, this approach might seem risky. But as travel now shows signs of renewed life, Expedia might be turning things around quicker than the rest. Its recent U.S. bookings are up 20 percent, compared to a 16 percent increase for Priceline.

1. As an intermediary, does Expedia have power to spur demand when the travel industry suffers?
2. Is Expedia taking the right approach with its branding and promotional strategy?
3. If the economy doesn't recover as quickly as hoped, will Expedia be in good shape?

Marketing by the Numbers

Consumers typically buy products such as toiletries, food, and clothing from retailers rather than directly from the manufacturer. Likewise, retailers buy from wholesalers. Resellers perform functions for the manufacturer and the consumer and mark up the price to reflect that value. Refer to Appendix 2 to answer the following questions.

1. If a manufacturer sells its laundry detergent to a wholesaler for $2.50, at what price will the wholesaler sell it to a retailer if the wholesaler wants a 15 percent margin based on the selling price? (AACSB: Communication; Analytical Reasoning)
2. If a retailer wants a 20 percent margin based on the selling price, at what price will the retailer sell the product to consumers? (AACSB: Communication; Analytical Reasoning)

Video Case

Progressive

Progressive has attained top-tier status in the insurance industry by focusing on innovation. Progressive was the first company to offer drive-in claims services, installment payment of premiums, and 24/7 customer service. But some of Progressive's most innovative moves involve its channels of distribution. Whereas most insurance companies distribute their products to consumers via intermediary agents or direct-to-consumer methods, Progressive was one of the first companies to recognize the value in doing both. In the late 1980s, it augmented its agency distribution with a direct 800-number channel.

In 1995, Progressive moved into the future by becoming the first major insurer in the world to launch a Web site. In 1997, customers could buy auto insurance policies online in real time. Today, at Progressive's Web site, customers can do everything from managing their own account information to reporting claims directly. Progressive even offers a one-stop concierge claim service.

After viewing the Progressive video, answer the following questions about marketing channels:

1. Apply the concept of the supply chain to Progressive.
2. Using the model of consumer and business channels found in the chapter, sketch out as many channels for Progressive as you can. How does each of these channels meet distinct customer needs?
3. Discuss the various ways that Progressive has had an impact on the insurance industry.

Company Case

Sa Sa International: The Hinterland Barrier

Sa Sa International, founded in 1978 by Eleanor and Simon Kwok, is the largest cosmetic retailer in Asia. Based in Hong Kong, it markets, distributes, and sells more than 600 brands covering skincare, fragrance, make up, and body care products, and health and beauty supplements. The brands it carries include Elizabeth Arden, Estée Lauder, Lancôme, and Crabtree & Evelyn, as well as private brands such as Suisse Programs.

Sa Sa works on the basis of selling cosmetics at a discount, believing that more sales will result depsite the decrease in profits. To offer low prices, Sa Sa stores stock merchandise available through parallel imports. It also enjoys cost savings by buying in large quantities. Instead of buying from the brands themselves, Sa Sa deals with agents who market products for manufacturers like L'Oréal, Hence, by purchasing these products from an agent, say in Malaysia, selling L'Oréal products, Sa Sa is able to offer a lower price than those found in Hong Kong's L'Oréal counters.

It has over 280 stores, spread across China, Hong Kong, Macau, Malaysia, Singapore, and Taiwan. All its stores are solely owned and operated by Sa Sa; there is no franchising.

Its sales across its 107 Hong Kong and Macau stores have been phenomenal. In 2014, it experienced an 8 percent profit margin on a six-month turnover of HK$4.2 billion ($540 million). Estimates suggest that that about 65 to 70 percent of its Hong Kong sales are from mainland Chinese tourists, who have been crossing into Hong Kong in large and increasing numbers. Chinese tourists make up three times the city's population. Spurred by inflation in China and the strengthening of the Chinese currency, renminbi, Chinese spending in Hong Kong has increased.

Market research has shown that female consumers in China look for bargains and a selection of brands that they cannot find in their country. Sa Sa fits the bill. With a wish list in hand, a Chinese woman can find her brand among the 17,000 different items and 600 brands that each Sa Sa outlet carries. Brands in Sa Sa Hong Kong also cost some 30 percent cheaper than in China, in part due to collective buying power and no tariffs in Hong Kong. And hence, banking on its reputation with mainland shoppers, Sa Sa hoped to replicate its success in China. Its foray into China began in 2005 with a store in Shanghai. With its flourishing sales in Hong Kong, it had set the huge mainland Chinese market as its primary target for fast expansion.

However, after 10 years and over 60 stores in China, Sa Sa is still facing obstacles that it did not anticipate. Though sales in the mainland market has been registering growth rate, it is mainly due to aggressive expansion rather than improving same-store sales. Operating losses remain high. Estimates suggest that the mainland market makes up about 5 percent of its turnover even though China makes up 62 of its 281 stores.

Several factors account for its dismal performance in China. It has trouble attracting brands to be carried in its China stores. While in its Hong Kong outlets, shoppers can buy big brand names, its mainland outlets were carrying more of the less well known house brands that Chinese consumers are not familiar with. Competitor, Sephora, is perceived to carry more attractive brands. Sephora does not adopt the same low-price strategy as Sa Sa. The prices of its products are nearly the same as those sold in department stores. Although the prices are not low, Sephora focuses on brand building and rapid market entry.

Additionally, China imposes huge taxes on cosmetics. It levies a 15 percent import tax and a 17 percent value-added tax. Hong Kong does not have tariffs on imports of cosmetics. Therefore, the price advantage that Chinese tourists enjoyed in Hong Kong cannot be had in China. Instead, the prices are some 20 to 30 percent more expensive in China than in Hong Kong. Discount promotions, which Chinese consumers find appealing, are also limited given the higher cost of operations.

Sa Sa also faces competition from the numerous local and Korean cosmetic brands that are priced much cheaper. There are at least 3,500 domestic cosmetics companies in China. Most of these are small-scale retailers, dominating lower-tier cities that are characterized by fragmented distribution networks. Knock-off shops selling brand name cosmetics are also encroaching on Sa Sa's market.

The huge sales that Sa Sa saw among Chinese tourists in Hong Kong may also be due to a more adventuresome spending spirit when one is away in a foreign land. Back home, mainland customers do not seem as interested in trying new brands as they were in Hong Kong. Hence, they were less willing to try the less familiar brands that Sa Sa carries in China.

Another challenge is upgrading its mainland service level to be on par with that in Hong Kong. Selling specialized cosmetics requires that the sales staff be knowledgeable and personable. In order to speed things up for its expansion, especially to northern China, Sa Sa moved its training sessions away from its head office to the stores. Without the head office operational support, this may have affected the quality of its sales staff.

The rise of online purchases has also affected Sa Sa's sales. Younger, Chinese consumers are avid online shoppers. While Sa Sa has an official store on Chinese Web site, Taobao, as well as on other Web sites such as 360Buy, Paipai, and Easybuy, online shopping offers consumers a much wider array of choices than on a physical shopping landscape.

Simon Kwok recognizes the challenges ahead of Sa Sa's China market. But the huge market size beckons Sa Sa to press on.

Questions for Discussion

1. Do you think Sa Sa should have entered the Chinese market in the first place?
2. What retail strategy would you recommend to Sa Sa when entering China? What cities should it enter first? Store size?
3. What can Sa Sa do now to improve its retail presence in China?

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Objective Outline

OBJECTIVE 1
Explain the role of retailers in the distribution channel and describe the major types of retailers.
Retailing (410–417)

OBJECTIVE 2
Describe the major retailer marketing decisions.
Retailer Marketing Decisions (418–425)

OBJECTIVE 3
Discuss the major trends and developments in retailing.
Retailing Trends and Developments (426–432)

OBJECTIVE 4
Explain the major types of wholesalers and their marketing decisions.
Wholesaling (433–438)

Chapter

13

Retailing and Wholesaling

Previewing the Concepts

In the previous chapter, you learned the basics of distribution channel design and management. Now, we'll look more deeply into the two major intermediary channel functions, retailing and wholesaling. You already know something about retailing—you're served every day by retailers of all shapes and sizes. However, you probably know much less about the horde of wholesalers who work behind the scenes. In this chapter, we'll examine the characteristics of different kinds of retailers and wholesalers, the marketing decisions they make, and trends for the future.

To start the discussion, we'll look at Carrefour. Here, we discuss how Carrefour has taken on China and Asia while competing against Wal-Mart.

Carrefour in China: Competing with the World's Largest Retailer

These days, Wal-Mart sells just about everything. That means that it competes ruthlessly with almost every other retailer, no matter what the product category. Wal-Mart outsells Toys "R" Us in the toy market. It gives retailers big headaches in DVD sales. Almost every retailer, large or small, has its hands full devising strategies by which it can compete with Wal-Mart and survive.

So, how *do* you compete with a behemoth like Wal-Mart? The best answer: You don't—at least not directly. Perhaps the worst strategy is trying to "out-Wal-Mart" Wal-Mart. Instead of competing head to head, smart competitors choose their turf carefully.

Carrefour is a chain that's doing very well by carving out its own turf in the shadow of the giant.

Worldwide, Carrefour has over 12,300 stores as opposed to Wal-Mart's more than 11,500 and its annual sales totaled 104.4 billion euros approximately $117.2 billion compared to Wal-Mart's $482 billion in 2015.

Although it may not seem like a fair fight, Carrefour is thriving. It succeeds through careful positioning—specifically, by positioning *away* from Wal-Mart. Rather than pursuing mass-market sales volume and razor-thin margins, Carrefour targets a slightly different group of customers in four main grocery store formats: hypermarkets, supermarkets, discount stores, and convenience stores. Carrefour's value proposition is summed up in its commitment to promoting local economic development.

Both online and in the flesh, a visit to Carrefour is more than just a shopping trip, it's an experience. And the experience is anything but what you'd find at Wal-Mart. While Wal-Mart makes customers feel at home, creating store environments that are inviting, fun, unique, informal, comfortable, attractive, nurturing, and educational, Carrefour lets you have the pleasure of shopping at a modern retail outlet. Its facility design can bring customers an unforgettable shopping experience. Let's look at the following:

- The separation of the entrance and exit to allow customers the possibility of shopping their way through the entire store;

> Carrefour customers therefore like the fact that the store's commitment to quality reaches far beyond what's on its shelves.

- The division of the store into distinctive areas according to product categories, to guide customer shopping; the provision of innovative facilities, such as safe non-staircase escalators and customer-oriented counters, to demonstrate its quality service; and
- A focus on atmospheric design which emphasizes interior store decorations, in-store sales promotion, point-of-purchase advertisements, and quality service from salespersons. Carrefour customers therefore like the fact that the store's commitment to quality reaches far beyond what's on its shelves. It cares about the well-being and quality of life of everyone associated with the business, from customers and employees, to suppliers, to the broader communities in which it operates.

Like Wal-Mart, Carrefour in China is very much concerned with human resources management and tries hard to nurture the loyalty of its employees to encourage them to devote themselves to Carrefour's "good business." In this regard, Carrefour emphasizes the importance of the following practices within the organization:

- discipline;
- selection of quality staff;
- training;
- effective motivation programs; and
- staff empowerment.

Such commitment, along with strong targeting and positioning, has made Carrefour one of the leaders of China's growing retail sector. It has over 230 stores in China and 80 stores in Taiwan. Although it has reported more difficult conditions in Asia, such as the slowdown in discretionary spending in China, it continues to drive selective expansion. In 2016, it opened its first convenience store in China called Easy. It also launched an e-commerce platform for Shanghai residents with a selection of more than 15,000 products.

Carrefour closed its less performing stores and pulled out of Singapore and India. Singapore is too small a country for hypermarkets while India's local regulations have prevented Carrefour from developing a retail network.

In China, Carrefour competes directly with Wal-Mart stores. It matches Wal-Mart's massive economies of scale, incredible volume purchasing power, ultra-efficient logistics, wide selection, and hard-to-beat prices. On top of this, it targets customers that Wal-Mart can't serve, offering them value that Wal-Mart doesn't deliver. By positioning away from Wal-Mart and other mainstream grocers, Carrefour has found its own very profitable place in the China market and in many markets in the world.[1]

Retailing
All activities involved in selling goods or services directly to final consumers for their personal, non-business use.

Retailer
A business whose sales come primarily from retailing.

Retailing

What is retailing? We all know that Wal-Mart, Carrefour, Isetan, and Watsons are retailers, but so are Avon representatives, Amazon.com, the local Holiday Inn, and a doctor seeing patients. **Retailing** includes all the activities involved in selling products or services directly to final consumers for their personal, non-business use. Many institutions—manufacturers, wholesalers, and retailers—do retailing. But most retailing is done by **retailers**: businesses whose sales come *primarily* from retailing.

Retailing plays a very important role in most marketing channels. In the United States, retailers accounted for more than $5 trillion of sales to final consumers. Retailers play an important role in connecting brands with consumers in the final phases of the buying process and at the point of purchase. In fact, many marketers are embracing the concept of shopper marketing, focusing the entire marketing process—from product and brand development to logistics, promotion, and merchandising—toward turning shoppers into buyers as they approach the point of sale.

Of course, every well-designed marketing effort focuses on customer buying behavior. What differentiates the concept of **shopper marketing** is the suggestion that these efforts should be coordinated around the shopping process itself. For example, Procter & Gamble follows a "store back" concept, in which all marketing ideas need to be effective at the store-shelf level and work back from there. The strategy builds around what P&G calls the "First Moment of Truth"—the critical three to seven seconds that a shopper considers a product on a store shelf.[2]

Shopper marketing
Focusing the entire marketing process on turning shoppers into buyers as they approach the point of sale, whether during in-store, online, or mobile shopping.

The dramatic growth of online and mobile shopping has added new dimensions to shopper marketing. The retailing "moment of truth" no longer takes place only in stores. Instead, Google defines a "zero moment of truth," when consumers begin the buying process by searching for and learning about products online. Today's consumers are increasingly *omnichannel buyers*, who make little distinction between in-store and online shopping, and for whom the path to a retail purchase runs across multiple channels. For these buyers, a particular purchase might consist of researching a product online and buying it from an online retailer, without ever setting foot into a retail store. Alternatively, they might use a smartphone to research a purchase on the fly, or even in retail store aisles. For example, it's common to see a consumer examining an item on a shelf at Isetan while at the same time using a mobile app to check product reviews and prices at Amazon.com. Thus, shopper marketing isn't just about in-store buying these days. Influencing consumers' buying decisions as they shop involves efforts aimed at online search and in-store, online, and mobile shopping.[3]

› Non-store retailing – The growth of non-store retailing in recent years is especially evident in Japan, where vending machines are used to sell almost anything from drinks to cigarettes and instant noodles.

Although most retailing is done in retail stores, in recent years *non-store retailing* has been growing much faster than store retailing. Non-store retailing includes selling to final consumers through direct mail, catalogs, telephone, the Internet, TV home-shopping shows, home and office parties, door-to-door contact, vending machines, and other direct-selling approaches. We discuss such direct-marketing approaches in detail in a later chapter. In this chapter, we focus on store retailing.

Types of Retailers

Retail stores come in all shapes and sizes, and new retail types keep emerging. The most important types of retail stores are described in **Table 13.1** and discussed in the following sections. They can be classified in terms of several characteristics, including the *amount of service* they offer, the breadth and depth of their *product lines*, the *relative prices* they charge, and how they are *organized*.

Amount of Service

Different products require different amounts of service, and customer service preferences vary. Retailers may offer one of three levels of service—self-service, limited service, and full service.

Self-service retailers serve customers who are willing to perform their own "locate–compare–select" process to save money. Self-service is the basis of all

TABLE 13.1 Major Store Retailer Types

Type	Description	Examples
Specialty Store	A store that carries a narrow product line with a deep assortment, such as apparel stores, sporting-goods stores, furniture stores, florists, and bookstores. A clothing store would be a *single-line* store, a women's clothing store would be a *limited-line* store, and a women's custom-shirt store would be a *superspecialty* store.	Giordano (single-line store), Giordano Ladies (limited-line store).
Department Store	A store that carries several product lines—typically clothing, home furnishings, and household goods—with each line operated as a separate department managed by specialist buyers or merchandisers.	Sogo, Siam Paragon, Tangs, Metrojaya.
Supermarket	A relatively large, low-cost, low-margin, high-volume, self-service operation designed to serve the consumer's total needs for grocery and household products.	Safeway, Wellcome, RT-Mart, Hua Lien, Kimisawa Supermarket, Giant.
Convenience Store	A relatively small store located near residential areas, open long hours seven days a week, and carrying a limited line of high-turnover convenience products at slightly higher prices.	7-Eleven, FamilyMart, Lawson, Circle K, Shell Select.
Discount Store	A store that carries standard merchandise sold at lower prices with lower margins and higher volumes.	Wal-Mart, Carrefour, The Store, Daiso.
Off-Price Retailer	A store that sells merchandise bought at less-than-regular wholesale prices and sold at less than retail; often leftover goods, overruns, and irregulars obtained at reduced prices from manufacturers or other retailers. These include *factory outlets* owned and operated by manufacturers; *independent off-price retailers* owned and run by entrepreneurs or by divisions of larger retail corporations; and *warehouse (or wholesale) clubs* selling a limited selection of brand-name groceries, appliances, clothing, and other goods at deep discounts to consumers who pay membership fees.	Esprit Outlet, Dickson Warehouse (factory outlets); Sogo Club (independent off-price retailer); GrandMart, Metro Asia (warehouse clubs).
Superstore	A very large store traditionally aimed at meeting consumers' total needs for routinely purchased food and non-food items. Includes *category killers*, which carry a deep assortment in a particular category and have a knowledgeable staff; *supercenters,* combined supermarket and discount stores; and *hypermarkets* with up to 20,500 square meters of space combining supermarket, discount, and warehouse retailing.	Tokyu, eBay (category killers); Jual Murah, Big C (supercenters); Carrefour, Pyrca, Giant (hypermarkets).

discount operations and is typically used by sellers of convenience goods (such as Circle K, Lawson, and 7-Eleven) and those of nationally branded, fast-moving shopping goods (such as Wal-Mart).

Limited-service retailers, such as Sa Sa cosmetics firm, provide more sales assistance because they carry more shopping goods about which customers need information. Their increased operating costs result in higher prices. In *full-service retailers*, such as specialty stores and first-class department stores, salespeople assist customers in every phase of the shopping process. Full-service stores usually carry more specialty goods for which customers like to be "waited on." They provide more services resulting in much higher operating costs, which are passed along to customers as higher prices. Some examples in Asia include Lane Crawford in Hong Kong, Mitsukoshi and Takashimaya in Japan, and Siam Paragon Department Store in Bangkok.

› Specialty stores – Some retailers carry narrow product lines with deep assortments within those lines.

Product Line

Retailers also can be classified by the length and breadth of their product assortments. Some retailers, such as **specialty stores**, carry narrow product lines with deep assortments within those lines. Today, specialty stores are flourishing. The increasing use of market segmentation, market targeting, and product specialization has resulted in a greater need for stores that focus on specific products and segments. Just take a look at the sports gears shops in Mongkok, Hong Kong or the cooking utilities stores in Kappabashi, Tokyo.

In contrast, **department stores** carry a wide variety of product lines. In recent years, department stores have added promotional pricing to counter the more efficient, lower-priced discounters. Others have stepped up the use of store brands and single-brand "designer shops" to compete with specialty stores. Still others are trying mail-order, telephone, and Web selling. Service remains the key differentiating factor. Retailers such as Sogo, Mitsukoshi, Lane Crawford, Takashimaya, Debenhams, and other high-end department stores are doing well by emphasizing high-quality service.

Supermarkets are the most frequently shopped-at type of retail store. Today, however, they are facing slow sales growth because of slower population growth and an increase in competition from discount food stores and supercenters on one hand, and upscale specialty food stores on the other. Supermarkets have also been hit hard by the rapid growth of out-of-home eating. In several Asian cities like Hong Kong, sales from supermarkets and supermarket sections of department stores have been sluggish.

Specialty store
A retail store that carries a narrow product line with a deep assortment within that line.

Department store
A retail organization that carries a wide variety of product lines—each line is operated as a separate department managed by specialist buyers or merchandisers.

Supermarket
A large, low-cost, low-margin, high-volume, self-service store that carries a wide variety of grocery and household products.

Many supermarkets are making improvements to attract more customers. In the battle for a "share of stomachs," many large supermarkets are moving upscale, providing improved store environments and higher-quality food offerings, such as from-scratch bakeries, gourmet deli counters, and fresh seafood departments. Others are cutting costs, establishing more efficient operations, and lowering prices to compete more effectively with food discounters. Finally, a few have added Web-based sales.

Convenience stores are small stores that carry a limited line of high-turnover convenience goods. After several years of stagnant sales, convenience stores are now experiencing healthy growth.[4]

Convenience store
A small store, located near a residential area, that is open long hours seven days a week and carries a limited line of high-turnover convenience goods.

In recent years, convenience store chains have tried to expand beyond their primary operation of providing convenience goods such as sweets, bread, milk and beverages so as to attract a wider target market. They are shedding the image of a "truck stop" where men go to buy beer, cigarettes, and magazines, and instead offer freshly prepared foods and cleaner, safer, more upscale environments. Consider this example:

7-Eleven – In Taiwan, 7-Eleven stores have undergone noticeable changes in providing services although customers may be still familiar with the stores and their muted orange-and-green color scheme. The aisles are wider, though, and the displays warmer in color. Chilling in the fridge are Taiwanese beer and other beverages. Not far from the cashier is a cooker filled with tea-marinated eggs. An aisle away is a sausage machine with heated rollers and a boiler with seasoned turnips, fish balls, and beancurd in soup.

However, these changes are not those which have brought delight to Taiwanese daily life. The convenience king, most commonly known for lowbrow yet popular features such as the Big Gulp and round-the-clock access to Twinkies, is moving away from the food chain in search of other sources of revenue. 7-Eleven is banking on some new services that compete more with post offices and express delivery companies than other traditional convenience stores. Customers can now pick up their products at 7-Eleven after they have bought their goods online. Or they can pay their bills over the counter at 7-Eleven. The transformation seems to be working very well and the number of people using these services is increasing.[5]

Convenience store makeover – 7-Eleven is shedding its "truck stop" image and transforming its stores to offer more upscale assortments and environments.

Superstores are much larger than regular supermarkets and offer a large assortment of routinely purchased food products, non-food items, and services. Wal-Mart, Target, Carrefour, and other discount retailers offer *supercenters*, very large combination food and discount stores. Supercenters are growing rapidly in large cities in China. Wal-Mart now has 428 stores all over China. It formed an alliance with JD.com, China's largest e-commerce company by revenue, to better serve consumers across China through a powerful combination of e-commerce and retail.[6]

Superstore
A store much larger than a regular supermarket that offers a large assortment of routinely purchased food products, non-food items, and services.

Category killer
A giant specialty store that carries a very deep assortment of a particular line and is staffed by knowledgeable employees.

Recent years have also seen the explosive growth of superstores that are actually giant specialty stores, the so-called **category killers**. They feature stores that carry a very deep assortment of a particular line, complete with knowledgeable staff at hand. Category killers are prevalent in a wide range of categories, including books, baby gear, toys, electronics, home-improvement products, linens and towels, party goods, sporting goods, and even pet supplies. Another superstore variation, a *hypermarket*, is a huge superstore, perhaps as large as *six* football fields. Although hypermarkets have been very successful in Europe and other world markets, they have met with little success in the United States, China, and Southeast Asia.

Finally, for some retailers, the product line is actually a service. Service retailers include hotels and motels, banks, airlines, colleges, hospitals, movie theaters, tennis clubs, bowling alleys, restaurants, repair services, hair salons, and dry cleaners. Service retailers in the United States are growing faster than product retailers.

Relative Prices

Retailers can also be classified according to the prices they charge (see **Table 13.1**). Most retailers charge regular prices and offer normal-quality goods and customer service. Others offer higher-quality goods and service at higher prices. The retailers that feature low prices are discount stores and "off-price" retailers.

A **discount store** sells standard merchandise at lower prices by accepting lower margins and selling higher volume. The early discount stores cut expenses by offering few services and operating in warehouse-like facilities in low-rent, heavily traveled districts. Today's discounters have improved their store environments and increased their services, while at the same time keeping prices low through lean, efficient operations. Leading discounters, such as Wal-Mart, now dominate the retail scene.

As the major discount stores traded up, a new wave of **off-price retailers** moved in to fill the ultra-low-price, high-volume gap. Ordinary discounters buy at regular wholesale prices and accept lower margins to keep prices down. In contrast, off-price retailers buy at less-than-regular wholesale prices and charge consumers less than retail. Off-price retailers can be found in all areas, from food, clothing, and electronics to no-frills banking and discount brokerages.

The three main types of off-price retailers are *independents*, *factory outlets*, and *warehouse clubs*. **Independent off-price retailers** are either owned and run by entrepreneurs or are divisions of larger retail corporations. Although many off-price operations are run by smaller independents, most large off-price retailer operations are owned by bigger retail chains.

Factory outlets—producer-operated stores by firms—sometimes group together in *factory outlet malls* and *value-retail centers*, where dozens of outlet stores offer prices as low as 50 percent below retail on a wide range of items. Whereas outlet malls consist primarily of manufacturers' outlets, value-retail centers combine manufacturers' outlets with off-price retail stores and department store clearance outlets.

The malls now are moving upscale and narrowing the gap between factory outlets and more traditional forms of retailers as discounts offered by outlets are getting smaller. However, a growing number of outlet malls now feature brands such as Coach, Polo, Ralph Lauren, Dolce & Gabbana, Giorgio Armani, Gucci, and Versace, causing department stores to protest to the manufacturers of these brands. Given their higher costs, the department stores must charge more than the off-price outlets. Manufacturers counter that they send last year's merchandise and seconds to the factory outlet malls, not the new merchandise that they supply to the department stores.

Warehouse clubs (or *wholesale clubs* or *membership warehouses*), such as Makro Asia in Thailand, Indonesia, and China, operate in huge, warehouse-like facilities and offer few frills. However, they do offer ultra low prices and surprise deals on selected branded merchandise.

Discount store
A retail operation that sells standard merchandise at lower prices by accepting lower margins and selling at higher volume.

Off-price retailer
A retailer that buys at less-than-regular wholesale prices and sells at less than retail. Examples are factory outlets, independents, and warehouse clubs.

Independent off-price retailer
An off-price retailer that is either owned and run by entrepreneurs or is a division of a larger retail corporation.

Factory outlet
An off-price retailing operation that is owned and operated by a manufacturer and that normally carries the manufacturer's surplus, discontinued, or irregular goods.

Warehouse club
An off-price retailer that sells a limited selection of brand name grocery items, applicances, clothing, and a hodgepodge of other goods at deep discounts to members who pay annual membership fees.

❯ Factory outlet malls – Value-retail centers now feature brands such as Gucci and Prada and combine manufacturers' outlets with off-price retail stores and department store clearance outlets, and are popular with shoppers and tourists.

Organizational Approach

Although many retail stores are independently owned, others band together under some form of corporate or contractual organization. The major types of retail organizations—*corporate chains*, *voluntary chains*, *retailer cooperatives*, *franchise organization*s, and *merchandising conglomerate*s—are described in **Table 13.2**.

TABLE 13.2 Major Types of Retail Organizations

Type	Description	Examples
Corporate chain store	Two or more outlets that are commonly owned and controlled, employ central buying and merchandising, and sell similar lines of merchandise. Corporate chains appear in all types of retailing, but they are strongest in department stores, food stores, drug stores, shoe stores, and women's clothing stores.	PARKnSHOP (grocery stores), Watsons, Cosmed (Health care stores), Chow Tai Fook (Jewellery), Shell Select
Voluntary chain	Wholesaler-sponsored groups of independent retailers engaged in bulk buying and common merchandising.	Independent Grocers Alliance (IGA), Do-it Best hardwares, Luk Fook Jewellery
Retailer cooperative	Groups of independent retailers who set up a central buying organization and conduct joint promotion efforts.	Associated Grocers (groceries), Mitre 10 (hardware)

TABLE 13.2 Major Types of Retail Organizations—Continued

Type	Description	Examples
Franchise organization	Contractual association between a franchisor (a manufacturer, wholesaler, or service organization) and franchisees (independent businesspeople who buy the right to own and operate one or more units in the franchise system). Franchise organizations are normally based on some unique product, service, or method of doing business, or on a trade name or patent, or on goodwill that the franchiser has developed.	McDonald's, Pizza Hut, Luk Fook Jewellery, Circle K, 7-Eleven
Merchandising conglomerate	Free-form corporations that combine several diversified conglomerates retailing lines and forms under central ownership, along with some integration of their distribution and management functions.	Limited Brands

Corporate chains are two or more outlets that are commonly owned and controlled. They have many advantages over independents. Their size allows them to buy in large quantities at lower prices and gain promotional economies. They can hire specialists to deal with areas such as pricing, promotion, merchandising, inventory control, and sales forecasting.

The great success of corporate chains caused many independents to band together in one of two forms of contractual associations. One is the *voluntary chain*—a wholesaler-sponsored group of independent retailers that engages in group buying and common merchandising—which we discussed in Chapter 12. The other type of contractual association is the *retailer cooperative*—a group of independent retailers that bands together to set up a jointly owned, central wholesale operation and conducts joint merchandising and promotion efforts. These organizations give independents the buying and promotion economies they need to meet the prices of corporate chains.

Another form of contractual retail organization is a **franchise**. The main difference between franchise organizations and other contractual systems (voluntary chains and retail cooperatives) is that franchise systems are normally based on some unique product or service; on a method of doing business; or on the trade name, goodwill, or patent that the franchisor has developed. Franchising has been

Corporate Chains
Two or more outlets that are commonly owned and controlled.

Franchise
A contractual association between a manufacturer, wholesaler, or service organization (a franchisor) and independent businesspeople (franchisees) who buy the right to own and operate one or more units in the franchise system.

Franchising – These days, it's nearly impossible to stroll down a city block or drive on a suburban street without seeing a McDonald's or a Subway.

prominent in fast foods, health and fitness centers, haircutting, auto rentals, motels, travel agencies, real estate, and dozens of other product and service areas.

Once considered upstarts among independent businesses, franchises now command 40 percent of all retail sales in China. These days, it's nearly impossible to stroll down a city block or drive on a suburban street without seeing a McDonald's, 7-Eleven, or Starbucks. One of the best-known and most successful franchisors, McDonald's, now has nearly 34,000 stores in 118 countries. It serves nearly 69 million customers a day and racks up more than $97 billion in annual system-wide sales. Some 80 percent of McDonald's restaurants worldwide are owned and operated by franchisees. Gaining fast is Subway, one of the fastest-growing franchises, with more than 44,000 shops in 111 countries, including over 27,000 in the United States.[7]

Finally, *merchandising conglomerates* are corporations that combine several different retailing forms under central ownership. An example is Li & Fung which operates Circle K, trendy private-label apparel Country Road, Calvin Klein Jeans, and Toys "R" Us. Such diversified retailing, similar to a multibranding strategy, provides superior management systems and economies that benefit all the separate retail operations.

Retailer Marketing Decisions

Retailers are always searching for new marketing strategies to attract and hold customers. In the past, retailers attracted customers with unique product assortments and more or better services. Today, retail assortments and services are looking more and more alike, and it's now more difficult for any one retailer to offer exclusive merchandise.

Service differentiation among retailers has also eroded. Many department stores have trimmed their services, whereas discounters have increased theirs. Customers have become smarter and more price-sensitive. They see no reason to pay more for identical brands, especially when service differences are shrinking. For all these reasons, many retailers today are rethinking their marketing strategies.

As shown in **Figure 13.1**, retailers face major marketing decisions about their *target market* and *positioning*, *product assortment and services*, *price*, *promotion*, and *place*.

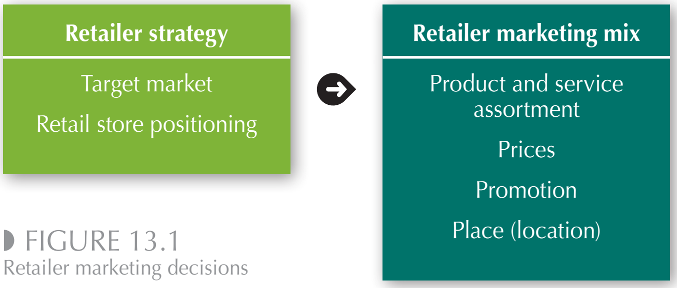

FIGURE 13.1
Retailer marketing decisions

Target Market and Positioning Decisions

Retailers must first define their target markets and then decide how they will position themselves in these markets. Should the store focus on upscale, midscale, or downscale shoppers? Do target shoppers want variety, depth of assortment, convenience, or low prices? Until they define and profile their markets, retailers cannot make consistent decisions about product assortment, services, pricing, advertising, store décor, or any of the other decisions that must support their positions.

Too many retailers fail to define their target markets and positions clearly. They try to have "something for everyone" and end up satisfying no market well. In contrast, successful retailers define their target markets well and position themselves strongly. Even large stores such as Takashimaya, Wal-Mart, and Siam Paragon must define their major target customers so as to effectively design proper marketing strategies. **Real Marketing 13.1** discusses understanding your market for retail therapy.

Product Assortment and Services Decisions

Retailers must decide on three major product variables: *product assortment*, *services mix*, and *store atmosphere*.

The retailer's *product assortment* should differentiate the retailer while matching target shoppers' expectations. One strategy is to offer merchandise that no other competitor carries, such as private brands or national brands on which it holds exclusives. For example, Takashimaya gets exclusive rights to carry a well-known designer's labels. Another strategy is to feature blockbuster merchandising events—Bloomingdale's is known for running spectacular shows featuring goods from a certain country, such as India or China. Or the retailer can offer surprise merchandise, as when Costco offers surprise assortments of seconds, overstocks, and closeouts. Finally, the retailer can differentiate itself by offering a highly targeted product assortment—Lane Bryant carries plus-size clothing; Brookstone (www.brookstone.com) offers an unusual assortment of gadgets in what amounts to an adult toy store.

The *services mix* can also help set one retailer apart from another. For example, some retailers invite customers to ask questions or consult service representatives in person or via phone or keyboard.

The *store's atmosphere* is another element in the reseller's product arsenal. Every store has a physical layout that makes moving around in it either hard or easy. Each store has a "feel"; the retailer must design an atmosphere that suits the target market and moves customers to buy. One shopper sums up the Apple store atmosphere and experience this way:

> It has become something of a second home to me—or, as I jokingly call it, "my temple." I've been known to spend hours at a time there. It seems a trifling thing that I can walk up to any terminal in the place during a … shopping break, log in to my email account, and attend to my electronic correspondence. I am also able to freely Web-surf, instant-message, or do a bit of e-shopping (heck, even buy a new Mac or iPod on the online Apple Store). No one rushes or hassles me. It seems like a family room (albeit a gigantic one), with its comfortable theater seating in the back, its library-style shelves lined neatly with Mac software, books, and magazines, its rows of flat-panel screens flashing Pixar trailers, its speaker-connected iPods cranking out catchy tunes, its low-to-the-ground kids' table and ball-shaped chairs for iMac gaming, and its Genius Bar, to which visitors could cozy up for guidance or troubleshooting with an Apple supergeek. That's why I sometimes don't want to leave. In fact, I wrote part of this essay on a MacBook laptop while reclining in one of those airport-style chairs. It's a testament to Apple's retail savvy that I felt totally at ease while typing away.[8]

Real Marketing 13.1

Retail Therapy: Knowing your Market

After 15 years hoping to crack the local retail scene French hypermarket chain Carrefour has shut up shop in Singapore. The mega-retailer—ranking number two in the world behind U.S. giant Wal-Mart in terms of revenue—shut down its Singapore operations citing, among other reasons, an outlook it said does "not allow reaching a leadership position in the medium and long term." It's a challenge echoed in China by other big global retailers such as Tesco and Wal-Mart who also cite the tough competition they face from more entrenched local retail chains. But, many of these local chains have been in operation in their home countries for years. So, the natural question arises: why couldn't Carrefour and other retail giants build a smarter proposition in the market and in consumers' minds instead of choosing the same position and strategy they had adopted overseas? Were they ignorant of, or oblivious to, the different market conditions prevailing in Asian cities? Carrefour's departure from Singapore is part of what it calls a phased international consolidation drive, including exiting markets in Thailand, Malaysia, and Singapore. In Singapore it operated two large stores, both located in central, downtown locations.

Retail Concept

Mega-retailers like Carrefour typically offer a wide assortment of food items and non-food items such as appliances and clothing under one roof, thus promising one-stop shopping convenience for their consumers at a reasonable price level. In Singapore this put them in direct competition with grocery retailers such as Cold Storage and Shop N Save, as well as appliance chains such as Courts and Best Denki. In the sprawling cities of the United States and, to some extent, in Europe, the hypermarket retail concept is built around the notion that in their shopping activities consumers incur significant travelling costs—time, traffic, and other incidentals. So, the thinking goes, consumers would like to avoid frequent shopping trips—they buy as many things as possible in a given trip and store them up at home.

Given the average size of homes in the United States storage costs are relatively minor. However, in densely populated markets like Singapore, the situation is rather different. Space is precious in a typical household. For consumers here frequent visits to nearby grocery retailers are not just a better option but almost inevitable. As a consequence Singapore's four local supermarket chains have embedded themselves across Singapore's residential landscape with 256 outlets averaging one for every 2.5 square kilometers of the country. This continual replenishment process reduces the need for the big shopping trip, while conversely the frequency of big shopping trips is reduced by the higher number of 'fill-in' trips the household makes to local grocers.

Different Proposition

Hence, mega-retailers like Carrefour face bigger hurdles in attracting customers here with their one-stop shopping proposition than they face in overseas markets.

In order to encourage consumers to visit their stores more frequently and entice them to buy big when they do, the impetus should have been on Carrefour to work smarter and revise their proposition according to the local market. However, in Singapore at least, that did not seem to be happen. First, Carrefour's prices were not attractive. While their stores did carry private labels, given the Western tilt in product range, prices remained generally higher. In addition to this, since their stores were located only in prime downtown locations, rent and other running costs were higher, putting further pressure on pricing.

Meanwhile, from the consumer perspective, visits to Carrefour stores involved significant travelling costs because of its downtown location: longer travelling time, higher parking fees and traffic congestion. This was coupled with the fact that the store's product assortment didn't offer any unique, compelling reason for consumers to choose them over other local grocers or chains. In contrast, the four established local supermarket chains offer a very clear proposition to the consumer targeting various segments of the market at the discount, middle-market and premium ranges.

Broad Appeal

Finally, given the peculiarities of the Singapore market, how has Giant, the locally based rival hypermarket chain, been able to thrive with its nine stores while Carrefour could not manage to survive with its two outlets? The key differentiator appears to be the fact that Giant offers their products at strongly competitive prices, a proposition that compensates for and outweighs the travelling costs incurred by consumers. Further, their product assortment seems to appeal to a broader segment of the market. As part of the Hong Kong-based retail group Dairy Farm, which also owns over 100 Cold Storage and Shop N Save supermarkets across Singapore, Giant is able to achieve considerable economies of scale, with its low sourcing costs and efficient operations allowing it to offer low prices to the consumer.

So when a hypermarket or any other retailer from the West moves into an Asian city, it is critical for them to understand the local retail set-up including the positions held by the incumbent retailers and the factors that control the consumer's shopping behaviour. When we consider an emerging retail market like India, where the big retailers may soon get permission to move in, they have to understand further how the infrastructure —or more precisely, the lack of it—will impact their cost of operations, in turn affecting their pricing and resulting demand.

Source

Adapted from Trichy Krishnan, "Retail therapy: Knowing your market," *Think Business*, 28 November 2012. Partially reproduced with permission of Think Business @ NUS Business School, National University of Singapore (http://thinkbusiness.nus.edu) Copyright NUS Business School.

› Store atmosphere – Apple stores are known for their shopper-friendly experiences, as customers can try out products or seek assistance from the Genius Bar.

Today's digital technologies present many new challenges and opportunities for shaping retail experiences. The surge in online and mobile shopping has changed retail customer behaviors and expectations. As a result, a wide range of store retailers are digitalizing the in-store experience. They are merging the physical and digital worlds to create new-age experiential retailing environments (see **Real Marketing 13.2**).

Successful retailers orchestrate virtually every aspect of the consumer store experience. Chances are good that everything in the store, from the layout and lighting to the music and even the colors and smells, has been carefully orchestrated to help shape the customers' shopping experiences and open their wallets.

Price Decision

A retailer's price policy must fit its target market and positioning, product and service assortment, and competition. Most retailers seek *either* high markups on lower volume (most specialty stores) *or* low markups on higher volume (mass merchandisers and discount stores). Retailers must also decide on the extent to which they will use sales and other price promotions. Some retailers compete instead on product and service quality rather than on price.

› Promotion decision – Retailers may use any or all of the promotion tools to reach consumers, such as these eye-catching displays to promote Chinese games and comics.

Promotion Decision

Retailers use any or all of the promotion tools—advertising, personal selling, sales promotion, public relations, and direct marketing—to reach consumers. They advertise in newspapers, magazines, radio, television, and on the Internet. Advertising may be supported by newspaper inserts and direct mail. Personal selling requires careful training of salespeople on how to greet customers, meet their needs, and handle their complaints. Sales promotions may include in-store demonstrations, displays, contests, and visiting celebrities. Public relations activities, such as press conferences and speeches, store openings, special events, newsletters, magazines, and public service activities, are always available to retailers. Most retailers have also set up Web sites, offering customers information and other features and often selling merchandise directly.

Place Decision

Retailers often point to three critical factors in retailing success: *location*, *location*, and *location*! It's very important that retailers select locations that are accessible to the target market in areas that are consistent with the retailer's positioning. Small retailers may have to settle for whatever locations they can find or afford. Large retailers, however, usually employ specialists who select locations using advanced methods. They may also consider opening up more stores to gain a lion's share of the market.

Most stores today cluster together to increase their customer pulling power and to give consumers the convenience of one-stop shopping. *Central business districts* were the main form of retail cluster until the 1950s. Every large city and town had a central business district with department stores, specialty stores, banks, and movie theaters. When people began to move to the suburbs, however, these central business districts, with their traffic, parking, and crime problems, began to lose business. Downtown merchants opened branches in suburban shopping centers, and the decline of the central business districts continued. In recent years, many cities have joined with merchants to try to revive downtown shopping areas by building malls and providing underground parking.

› Place decision – It's very important that retailers select locations that are accessible to the target market in areas that are consistent with the retailer's positioning. Watsons locates its outlets in trendy and popular areas.

A **shopping center** is a group of retail businesses planned, developed, owned, and managed as a unit. A *regional shopping center*, or *regional shopping mall*, the largest and most dramatic shopping center, contains from 40 to over 200 stores. It is like a covered mini-downtown and attracts customers from a wide area. A *community shopping center* contains between 15 and 40 retail stores. It normally contains a branch of a department store or variety store, a supermarket, specialty stores, professional offices, and sometimes a bank. Most shopping centers are *neighborhood shopping centers* or *strip malls* that generally contain between five and 15 stores. They are close and convenient for consumers. They usually contain a supermarket, perhaps a discount store, and several service stores.

Shopping center
A group of retail businesses planned, developed, owned, and managed as a unit.

A recent addition to the shopping center scene is the so-called *power center*. These huge unenclosed shopping centers consist of a long strip of retail stores,

Real Marketing 13.2

Digitizing the In-Store Retail Experience

There's a flashy new store on Michigan Avenue in downtown Chicago's high-end retail district known as the Magnificent Mile. The store is bright and inviting, with sights and sounds designed to pull people in and get them to linger longer. Customers sit at any of dozens of stations, sampling the latest phone apps and electronic gadgetry. Enthusiastic, iPad-wielding associates mingle with customers, talking tech and dispensing handson help and advice. With 130 digital screens and an 18-foot video wall, every aspect of the open space is designed to engage customers about future wireless technologies and services. It feels more like a techy neighborhood hangout than a place to buy products.

Is this a gleaming new Apple store? Think again. This is AT&T's new flagship store. But the resemblance to Apple's groundbreaking retail concept is no mistake. Dozens of diverse retail chains—from high-tech sellers like AT&T to high-touch merchants such as Audi and Build- A-Bear—are remaking their stores in the image of Apple's open marketplace prototypes. But even more, with the surge in digital, online, and mobile technologies invading the retail space, these store chains are blazing new ground. They are digitizing in-store retail—transforming the traditional in-store experience by infusing digital and online technologies into their physical store environments. It's the future of store retailing, but it's already happening.

When they first walk into AT&T's new store, customers quickly realize that it's like nothing they've seen before. "One of my favorite comments from a recent patron . . . was that it was like walking into a Web site," says AT&T's president of retail. Organized into zones and stations, the store's technology immerses customers in multimedia and interpersonal experiences. In the Explorer Lounge, customers can play with and learn about the latest apps. At the App Bar, "apptenders" give one-on-one or group demos, which are displayed on the Apps Wall for others to follow along. The 18-foot-high Connect Wall features a giant interactive video screen that displays customer interactions with content and product information, visible to the entire store and to passers- by outside. Lifestyle Boutiques organize products, apps, and accessories by customer needs, such as Get Fit, Be Productive, and Share Your Life. At the Experience Platform, customers can interact with AT&T products for home security and automation, entertainment, music, and automobiles.

Although it might seem that the store is all about products and technologies, the real focus is on the customer experience. The store is designed to let customers interact with devices and services, understand how they work, and experience the impact the devices can have on their lives. In one store area, for example, customers can experience how Jawbone's Up Bracelet integrates with a smartphone app to monitor health and fitness by tracking sleep, eating, and movement patterns. In another, a Nissan Leaf is set up to interactively demonstrate various auto-based apps that help customers solve problems, such as monitoring how fast their teenagers are driving. The store is a physical manifestation of AT&T's "It's what you do with what we do" marketing campaign. "We used to sell phones," says the AT&T executive. "Now we've shifted to offering solutions."

Digitizing in-store retail is an obvious fit for a technology retailer like AT&T. But companies in a wide range of other industries are also pioneering the concept. Take German automaker Audi, for instance. In the lead-up to the 2012 Summer Olympics in London, Audi threw open the doors to its first Audi City, a stunningly innovative digitized showroom in London's busy Piccadilly Circus area.

Rather than displaying a sea of shiny new vehicles, the Audi City showroom contains very few actual cars, and future Audi showrooms may have none at all. Instead, Audi City is all-digital. Prospective customers use touchscreens and Kinect-style cameras to design and manipulate virtual, life-size cars of their dreams displayed on massive screens surrounding the showroom space. When they've finished, a video shows the car they've designed in action, complete with the exact sound of the chosen engine in full stereo fidelity. The car is then loaded onto a memory stick that the customer can take for later remembering and sharing.

The idea of buying a car without actually seeing it flies in the face of auto retailing tradition. But these car-buying times are anything but traditional. Audi sees digitization as a way to fit showrooms into smaller urban settings and to overcome the limitations of physical dealerships. With 12 different models, each with up to six different trim levels, all with numerous options, no physical dealership can have every possible model on hand. Virtual showrooms, however, can present every model in Audi's extensive portfolio in every possible permutation. Moreover, customers can call them up instantly and make changes on the fly.

So far, the Audi City virtual experience is producing very real-world results. Audi City showrooms in London, Beijing, and Dubai are outselling their traditional counterparts by 70 percent, with an average increase in margin per vehicle of 30 percent. And the digitized auto lounges are bringing more new customers through the doors. Ninety percent of Audi City visitors are new to the brand.

The digitized showroom is finding its way into every industry imaginable. Consider Build-ABear Workshop. No stranger to retail innovation, Build-A-Bear revolutionized the in-store experience when it burst into America's malls almost 20 years ago with unique stores that were part showroom, part factory, and part theme park. With the original Build-A-Bear format, children moved from station to station, constructing and customizing their stuffed bears and watching them come to life before their very eyes.

But as smartphones, tablets, and other digital devices changed the way children play, Build-A-Bear saw its sales decline and losses mount. Now, however, rather than fighting digital-age developments, Build-A-Bear is deploying them. Today's Build-A-Bear stores are designed to engage the new generation of digitally adept children. A large video screen at the front of the store uses movement technology to greet children, engage them with interactive games, and introduce store features. From there, each of the eight stations in the bear-building process is enhanced by touchscreens and digital features that give young bear-builders more hands-on involvement and more design options. Kids can even give their finished bear a virtual bath before fluffing it with real air.

For AT&T, Audi, and Build-A-Bear, retailing is nothing new. Each has been in brick-and-mortar retailing for years, with hundreds of showrooms worldwide. But these forward-looking retailers are now betting on a digitized in-store future. AT&T plans to roll out six or seven elements of its Michigan Avenue store to each of its 2,300 other stores. Audi plans to open 20 more Audi City showrooms by 2015. And Build-A-Bear has already updated each of its more than 400 stores with its new digital workstations. As AT&T's president of retail points out, digitization is more than just electronic whiz-bang. "It's all about creating [relevant customer experiences and] interactions rather than just transactions."

Sources

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including large, freestanding anchors such as Wal-Mart. Each store has its own entrance with parking directly in front for shoppers who wish to visit only one store. Power centers have increased rapidly during the past few years to challenge traditional indoor malls.

Thus, despite the recent development of many new "megamalls," such as the Pacific Place in Hong Kong, Taipei 101 in Taiwan, Pavilion in Kuala Lumpur, and Siam Paragon Shopping Center in Bangkok, in some countries, there is an emerging trend toward smaller lifestyle centers. These lifestyle centers—smaller malls with upscale stores, convenient locations, and expensive atmospheres—are usually located near affluent residential neighborhoods and cater to the retail needs of consumers in their areas.

❯ Despite the development of many new megamalls such as Taipei 101 in Taiwan, there is an emerging trend in some countries towards smaller lifestyle centers such as the Dempsey Hill area in Singapore where smaller, upscale stores are located.

Retailing Trends and Developments

Retailers operate in a harsh and fast-changing environment, which offers threats as well as opportunities. Consumer demographics, lifestyles, and shopping patterns are changing rapidly, as are retailing technologies. To be successful, retailers will need to choose target segments carefully and position themselves strongly. They need to take the following retailing developments into account as they plan and execute their competitive strategies.

New Retail Forms, Shortening Retail Life Cycles , and Retail Convergence

New retail forms continue to emerge to meet new situations and consumer needs, but the life cycle of new retail forms is getting shorter. Department stores took about 100 years to reach the mature stage of the life cycle; more recent forms, such as warehouse stores, reached maturity in about 10 years.

Many retailers re using limited-time *pop-up stores* that let them promote their brands to seasonal shoppers and create buzz in busy areas. Other retailers have expanded to offer lifestyle experience next to their usual retail outlets. Take clothing retailer Agnes b. In Hong Kong, Agnes b. has opened up a casual café selling snacks and beverages next to its clothing retail outlet.

Today's retailers appear to be converging. Increasingly, different types of retailers now sell the same products at the same prices to the same consumers. This merging of consumers, products, prices, and retailers is called *retail convergence*. Such convergence means greater competition for retailers and greater difficulty in differentiating offerings.

› In Hong Kong, Agnes b. offers a casual dining experience next to its clothing merchandise store.

The Rise of Mega-Retailers

Through their superior information systems and buying power, these giant retailers can offer better merchandise selections, good service, and strong price savings to consumers. As a result, they grow even larger by squeezing out their smaller, weaker competitors.

The mega-retailers are also shifting the balance of power between retailers and producers. A relative handful of retailers now control access to enormous numbers of consumers, giving them the upper hand in their dealings with manufacturers. For example, in the United States, Wal-Mart generates almost 20 percent of P&G's revenues. Wal-Mart can, and often does, use this power to wring concessions from P&G and other suppliers.[9]

Growth of Direct, Online, Mobile, and Social Media Retailing

Most consumers still make a majority of their purchases the old-fashioned way: They go to a store, find what they want, plunk down their cash or credit cards, and bring home the goods. However, consumers now have a broad array of nonstore alternatives, including direct and digital shopping via Web sites, mobiles apps, and social media. Direct and digital marketing are currently the fastest-growing forms of marketing.

Today, thanks to advanced technologies, easier-to-use and enticing online sites and mobile apps, improved online services, and the increasing sophistication of search technologies, online retailing is thriving. In fact, although it currently accounts for only about 5.8 percent of total U.S. retail sales, online buying is growing at a much brisker pace than retail buying as a whole. Last year's U.S. online retail sales reached an estimated $263 billion, up 16.9 percent over the previous year versus a 4.2 percent increase in overall retail sales. Online retail will reach an estimated $370 billion by 2017.[10]

› **Online retailing** – Today's online retailing is alive, well, and growing, especially for click-and-brick retailers like Staples. Its Web site (www.staples.com) now accounts for almost one-quarter of sales.

Retailer online sites, mobile apps, and social media also influence a large amount of in-store buying. Shopping apps are gaining popularity in Asia. Such apps are used most often in India (54 percent) and China (48 percent) with about half of the online population using a shopping app more than once a week. Consumers in Singapore and Indonesia also have a fairly high usage of shopping apps (37 and 35 percent respectively). Mobile payment is another area that encourages growth of online shopping. Some 72 percent of connected consumers in India and 60 percent in Indonesia agree that using the phone to send/receive money is easier than sending cash, and that paying for their shopping online is more secure now than before.[11]

The spurt in online, mobile, and social media retailing is both a blessing and a curse to store retailers. Although it gives them new channels for engaging and selling to customers, it also creates more competition from online-only retailers. To the dismay of some store retailers, many shoppers now check out merchandise at physical-store showrooms but then buy it online using a computer or mobile device, sometimes while in the store—a process called showrooming. These days, as many as half of all shoppers who buy products online first check them out at a traditional store. Store retailers such as Target, Wal-Mart and Toys "R" Us have been hit hard by showrooming. Today, however, many store retailers are developing strategies to counter showrooming. Others are even embracing it as an opportunity to highlight the advantages of shopping in stores versus online-only retailers (see **Real Marketing 13.3**).[12]

Thus, it's no longer a matter of customers deciding whether to shop in a store or shop online. Increasingly, customers are merging store, Web sites, social media, and mobile outlets into a single shopping process. The Internet and digital devices have spawned a whole new breed of shopper and way of shopping. Whether shopping for electronics, consumer products, cars, homes, or medical care, many people just can't buy anything unless they first look it up online and get the lowdown. And they've gotten used to buying anywhere, anytime—whether it's in the store, online, on the go, or even online while in the store.

All types of retailers now employ direct and online channels. The Web and mobile online sales of large brick-and-mortar retailers, like Wal-Mart, are increasing rapidly. Many large, online-only retailers—Amazon.com, Zalora, Netflix, online travel companies such as zuji.com and Expedia.com—have made it big on the Internet. At the other extreme, hordes of niche marketers have used the Internet to reach new markets and expand their sales.

Still, much of the anticipated growth in online sales will go to multichannel retailers—the click-and-brick marketers who can successfully merge the virtual and physical worlds. In a recent ranking of the top 25 online retail sites, 15 were owned by store-based retail chains. Another study showed that, among the top 500 online retailers, online sales by store chains were growing 8 percent faster than those of online-only retailers and 40 percent faster than overall e-commerce.[13]

Growing Importance of Retail Technology

Retail technologies have become critically important as competitive tools. Progressive retailers are using advanced IT and software systems to produce better forecasts, control inventory costs, interact electronically with suppliers, send information between stores, and even sell to customers within stores. They have adopted sophisticated systems for checkout scanning, RFID inventory tracking, merchandise handling, information sharing, and interacting with customers.

Perhaps the most startling advances in retail technology concern the ways in which retailers are connecting with consumers. Today's customers have gotten used to the speed and convenience of buying online and to the control that the Internet gives them over the buying process. The Web lets consumers shop when they like and where they like, with instant access to gobs of information about competing products and prices. No real-world store can do all that.

Increasingly, however, retailers are attempting to meet these new consumer expectations by bringing Web-style technologies into their stores. Many retailers now routinely use technologies ranging from touch-screen kiosks, mobile handheld shopping assistants, and customer-loyalty cards to self-scanning checkout systems and in-store access to store inventory databases.

The future of technology in retailing lies in merging online and offline shopping into a seamless shopping experience. It's not a matter of online retailing growing while physical retailing declines. Instead, both are important and must be integrated.

Global Expansion of Major Retailers

Retailers with unique formats and strong brand positioning are increasingly moving into other countries. Many are expanding internationally to escape mature and saturated home markets. Over the years, some big retailers, such as McDonald's, and Toys "R" Us—have become globally prominent as a result of their marketing prowess. Others, such as Wal-Mart, are rapidly establishing a global presence.

French discount retailer Carrefour, the world's second-largest retailer after Wal-Mart, has embarked on an aggressive mission to extend its role as a leading international retailer:

> **Carrefour –** It leads Europe in supermarkets and the world in hypermarkets. Carrefour is outpacing Wal-Mart in several emerging markets, including South America, China, and the Pacific Rim. It's the leading retailer in Brazil and Argentina, where it operates close to 1,580 stores, compared to Wal-Mart's 553 units. Carrefour has now become the second largest foreign retailer in China, after RT-Mart, in sales with Wal-Mart coming in third. In short, Carrefour is forging ahead of Wal-Mart in most markets outside North America. The only question: Can the French retailer hold its lead? Although no one retailer can safely claim to be in the same league with Wal-Mart as an overall retail presence, Carrefour stands a better chance than most to hold its own in global retailing.[14]

Table 13.3 compares the tactics used by Wal-Mart and Carrefour in China.

TABLE 13.3 Comparing Tactics used by Wal-Mart with Carrefour

Wal-Mart	Carrefour
Low-cost	Specialist in bulk selling
Creating a shopping environment	Experiential shopping
Satisfying services	Happy shopping
Low prices everyday	It is nice to have low prices
Zero-cost promotion	Entertaining promotion
The best location strategy	Located-at-a-junction strategy
Employees as Partners	Good Employees = Good Business

Real Marketing 13.3

Showrooming:
Don't Fight It. Embrace It.

At the local Best Buy in the United States, a helpful sales associate in the familiar blue shirt patiently assists a customer who's itching to buy a new tablet computer. After 15 minutes, the customer settles on a sleek new 10.1-inch Samsung Galaxy Tab, sale-priced at $359. Everyone seems happy and it looks like the associate has earned a well-deserved sale. However, instead of reaching for his credit card, the customer whips out his smartphone. With the salesperson looking on, he uses Amazon's Flow app to scan the Samsung tablet. Up pops an Amazon page featuring the Galaxy Tab he likes, complete with user reviews and prices. Amazon.com has a better price—only $329. And with his Amazon Prime membership, the customer can have it delivered to his doorstep in two days with no shipping fees. The customer pushes the Amazon.com "Buy Now" button and walks out of the store empty-handed.

Welcome to the world of showrooming—the now-common practice of examining merchandise in traditional physical stores while cross-shopping online. With the recent surge in mobile devices and shopping apps, until recently, showrooming has wreaked havoc on store retailers in all categories Best Buy, for example, found itself posting losses, closing stores, and laying off workers as sales shifted to Amazon and other e-tailers.

One of the biggest reasons shoppers engage in showrooming is the search for lower prices. According to one study, as many as half of all shoppers who purchase goods online check them out first in a traditional store, with many of them using an in-store shopping app to find better prices online and even make the online purchase while still in the store. Initially, major brick-andmortar retailers countered by aggressively tracking online competitor pricing and doing their best to match it. However, online sellers have significant cost advantages—they don't bear the expense of running physical store locations and they aren't required to collect sales taxes in many states. Thus, price matching strategies often left store retailers with paper-thin margins. They needed other weapons to deal with showrooming.

Today, store retailers are developing broader and better strategies to keep smartphone- wielding shoppers from defecting. Some are even tackling the problem head-on and using showrooming to their advantage. They are learning that whereas showrooming consumers might check out products in person before clicking the online buy button, these consumers also do "reverse showrooming"—checking out products online, then buying them in the store. In fact, last year, showrooming actually declined while reverse showrooming increased. A full 69 percent of shoppers now use their computers, mobile devices, and shopping apps to do product and price research—often in-store—then simply buy what's in front of them on store shelves.

Thus, many store retailers are starting to gain more from mobile shopping than they lose. For example, beauty merchandiser Sephora has long considered showrooming beneficial to customer buying and loyalty. Mobile channels help its shoppers become more informed and give the company a chance to reach them at more points in the purchase process. Sephora actually advocates showrooming, urging customers to use their phones in its stores. "It's a better experience," says Sephora's director of mobile and digital store marketing. "We know people research, so we want you to do that both before you come in and when you're in-store."

Many retailers that once panicked at the sight of customers browsing physical stores with smartphones in hand are now realizing the potential advantages of such behavior. One recent study showed that shoppers who use mobile devices for showrooming are almost twice as likely to purchase from the same retailer instore or online (38 percent) than buy elsewhere (21 percent). The key is to convert store visitors into buyers by helping them with the showrooming process rather than discouraging it.

For example, athletic footwear giant Foot Locker arms its associates with the same mobile research capabilities that customers have. With their tablets, using online information about products and competitor offers, employees can work with and educate customers. Foot Locker trains employees to go beyond prices and engage customers in ways that add value through personal touches. Further, with 3,500 stores and Footlocker's own substantial online presence, the store retailer can help customers to shape almost any kind of shopping experience, including a broad choice of service, payment, and delivery options not available from online retailers.

Still other store retailers are riding the showrooming trend by boosting their own online and digital options to augment shopping in their stores. For example, Target recently upgraded its Web and mobile sites and quadrupled the number of items it sells online. Wal-Mart has upped its emphasis on in-store pickups for online orders. It tells customers that they can order from its Walmart.com site, sometimes pick up items on the same day, avoid shipping fees, and easily return items to the store if not satisfied. Customers now pick up half of all Walmart.com purchases in stores, often buying additional merchandise during the visit.

Both Wal-Mart and Target are also testing mobile apps that pull customers to both their Web sites and stores, let them prepare shopping lists, and, in Target's case, receive personalized daily-alert deals and exclusive discounts sent to their phones. To help keep customers in the store once they arrive, many Wal-Mart stores have adopted a new strategy called the "endless aisle," by which in-store clerks help customers to order immediately from Walmart.com when they can't find particular items in the store. Both retailers are working feverishly to provide multichannel strategies that merge the advantages of digital shopping with the unique advantages of in-store shopping, such as instant buying gratification, easy returns, and personal sales assistance.

To avoid losing sales to showrooming customers, Best Buy has now come to embrace the practice head-on rather than fight it. Armed with mobile price checkers, employees are trained to proactively cross-check prices against its own online offers and those of other retailers. They are then empowered to match those prices, putting to rest the question of price and letting associates focus on giving customers value in areas where Best Buy has the advantage—such as service, immediacy, convenient locations, and easy returns. To make in-store buying more attractive, Best Buy has also tested what it calls "Connected Stores," which feature tech support, wireless connections, and a large customer assistance hub at the center, plus new areas and checkout lanes to speed in- store pickup on items purchased online.

Despite such efforts by store retailers, showrooming and online buying still pose serious challenges. For example, many experts remain skeptical that Best Buy can survive the showrooming onslaught. But the real challenge isn't in-store shopping versus online shopping. It's more a matter of using both to provide the best overall customer shopping experience and value. Although online-only sellers may have some cost, price, assortment, and convenience advantages, store retailers offer their own unique benefits, such as, well, stores. They also have multichannel advantages, combining in-store and online capabilities that online-only retailers can't match. So their best strategy isn't to combat showrooming. Instead, store retailers should embrace showrooming, using it to engage consumers and showcase their strengths in shaping the anytime, anywhere shopping experience that today's customers seek.

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Green Retailing

Today's retailers are increasingly adopting environmentally sustainable practices. They are greening up their stores and operations, promoting more environmentally responsible products, launching programs to help customers be more responsible, and working with channel partners to reduce their environmental impact.

At the most basic level, most large retailers are making their stores more environmentally friendly through sustainable building design, construction, and operations. For example, some supermarket stores employ extensive recycling and compost programs, wind energy and solar panels for power, and regionally sourced sustainable building materials. Similarly, McDonald's Golden Arches are now going green. Its new eco-friendly restaurants are designed from the bottom up with a whole new eco-attitude.

› McDonald's Golden Arches are going green. Its new eco-friendly restaurants are designed from the bottom up with a whole new eco-attitude.

McDonald's – A new "green" McDonald's in Cary, North Carolina, is built and furnished mostly with reclaimed building materials. The parking lot is made with permeable pavers, which absorb and clean storm water and filter it back into the water table. Exterior and interior lighting uses energy-efficient LEDs, which consume as much as 78 percent less energy and last 10 to 20 times longer than traditional lighting. The restaurant is landscaped with hearty, drought-resistant native plants, which require less water. Then, what little water they do need comes from rainwater channeled from the roof and condensation from the super–high-efficiency HVAC system. Inside the restaurant, solartube skylights bring in natural light and reduce energy use. A sophisticated lighting system adjusts indoor illumination based on light entering through the skylights. The dining room is filled with materials made from recycled content (recycled floor tiles, for example, and counters made from recycled glass and concrete), and paints and cleaning chemicals were chosen for their low environmental impact. Other green features include high-efficiency kitchen equipment and water-saving, low-flow faucets and toilets. The restaurant even offers electric vehicle charging stations for customers.[15]

Many retailers have also launched programs that help consumers make more environmentally responsible decisions. Korean skincare and cosmetics company, Innisfree, encourages its customers to recycle its bottles by providing recycling bins in its stores. Similarly, Best Buy's "Greener Together" program helps customers select more energy-efficient new products and recycle old ones.[16]

Finally, many large retailers are joining forces with suppliers and distributors to create more sustainable products, packaging, and distribution systems. For example, Amazon.com works closely with many producers of the products it sells to reduce and simplify their packaging. And beyond its own substantial sustainability initiatives, Wal-Mart wields its huge buying power to urge its army of suppliers to

› South Korean cosmetics company Innisfree makes it easier for its customers to recycle its bottles by providing recycling bins in its stores.

improve their environmental impact and practices. The retailer has even developed a worldwide Sustainable Product Index, by which it rates suppliers. It plans to translate the index into a simple rating for consumers to help them make more sustainable buying choices.

Green retailing yields both top- and bottom-line benefits. Sustainable practices lift a retailer's top line by attracting consumers looking to support environmentally friendly sellers and products. They also help the bottom line by reducing costs. For example, Amazon.com's reduced-packaging efforts increase customer convenience and eliminate "wrap rage" while at the same time save packaging costs. And an earth-friendly McDonald's restaurant not only appeals to customers and helps save the planet but costs less to operate. "Green retailing has recently become another legitimate differentiator in the [retail] brand equation, and it creates significant quick-hit ROI opportunities, as well," concludes a retail analyst.[17]

Wholesaling

Wholesaling includes all activities involved in selling goods and services to those buying for resale or business use. We call those firms engaged *primarily* in wholesaling activities as **wholesalers**. Wholesalers buy mostly from producers and sell mostly to retailers, industrial consumers, and other wholesalers. As a result, many of the nation's largest and most important wholesalers are largely unknown to final consumers.

Wholesaling
All activities involved in selling goods and services to those buying for resale or business use.

Wholesaler
A firm engaged primarily in wholesaling activities.

Why are wholesalers important to sellers? Simply put, wholesalers add value by performing one or more of the following channel functions:

- *Selling and promoting*. Wholesalers' sales forces help manufacturers reach many small customers at a low cost. The wholesaler has more contacts and is often more trusted by the buyer than the distant manufacturer.
- *Buying and assortment building*. Wholesalers can select items and build assortments needed by their customers, thereby saving much work.
- *Bulk-breaking*. Wholesalers save their customers money by buying in carload lots and breaking bulk (breaking large lots into small quantities).
- *Warehousing*. Wholesalers hold inventories, thereby reducing the inventory costs and risks of suppliers and customers.
- *Transportation*. Wholesalers can provide quicker delivery to buyers because they are closer than producers.
- *Financing*. Wholesalers finance their customers by giving credit, and they finance their suppliers by ordering early and paying bills on time.
- *Risk bearing*. Wholesalers absorb risk by taking title and bearing the cost of theft, damage, spoilage, and obsolescence.
- *Market information*. Wholesalers give information to suppliers and customers about competitors, new products, and price developments.
- *Management services and advice*. Wholesalers often help retailers train their salesclerks, improve store layouts and displays, and set up accounting and inventory control systems.

› **Warehousing** – Wholesalers hold inventories, therefore reducing the inventory costs and risks of suppliers and customers.

Types of Wholesalers

Merchant wholesaler
An independently owned business that takes title to the merchandise it handles.

Broker
A wholesaler who does not take title to goods and whose function is to bring buyers and sellers together and assist in negotiation.

Agent
A wholesaler who represents buyers or sellers on a relatively permanent basis, performs only a few functions, and does not take title to goods.

Manufacturers' sales branches and offices
Wholesaling by sellers or buyers themselves rather than through independent wholesalers.

Wholesalers fall into three major groups (see **Table 13.4**): *merchant wholesalers*, *agents and brokers*, and *manufacturers' sales branches and offices*. **Merchant wholesalers** are the largest single group of wholesalers, accounting for roughly 50 percent of all wholesaling. Merchant wholesalers include two broad types: full-service wholesalers and limited-service wholesalers. *Full-service wholesalers* provide a full set of services, whereas the various *limited-service wholesalers* offer fewer services to their suppliers and customers. The several different types of limited-service wholesalers perform varied specialized functions in the distribution channel.

Brokers and *agents* differ from merchant wholesalers in two ways: They do not take title to goods, and they perform only a few functions. Like merchant wholesalers, they generally specialize by product line or customer type. A **broker** brings buyers and sellers together and assists in negotiation. **Agents** represent buyers or sellers on a more permanent basis. *Manufacturers' agents* (also called manufacturers' representatives) are the most common type of agent wholesaler. The third major type of wholesaling is that done in **manufacturers' sales branches and offices** by sellers or buyers themselves rather than through independent wholesalers.

Wholesaler Marketing Decisions

Wholesalers now face growing competitive pressures, more demanding customers, new technologies, and more direct-buying programs on the part of large industrial, institutional, and retail buyers. As a result, they have taken a fresh look at their marketing strategies. As with retailers, their marketing decisions include choices of target markets, positioning, and the marketing mix—product assortments and services, price, promotion, and place (see **Figure 13.2**).

Wholesale strategy
Target market
Service positioning

→

Wholesale marketing mix
Product and service assortment
Prices
Promotion
Place (location)

FIGURE 13.2
Wholesaler marketing decisions

TABLE 13.4 Major Types of Wholesalers

Type	Description
Merchant wholesalers	Independently owned businesses that take title to the merchandise they handle. There are *full-service wholesalers* and *limited-service wholesalers*.
Full-service wholesalers	Provide a full line of services: carrying stock, maintaining a sales force, offering credit, making deliveries, and providing management assistance. Full-service wholesalers include wholesale merchants and industrial distributors.
Wholesale merchants	Sell primarily to retailers and provide a full range of services. *General merchandise wholesalers* carry several merchandise lines, whereas *general line wholesalers* carry one or two lines in great depth. *Specialty wholesalers* specialize in carrying only part of a line.
Industrial distributors	Sell to manufacturers rather than to retailers. Provide several services, such as carrying stock, offering credit, and providing delivery. May carry a broad range of merchandise, a general line, or a specialty line.
Limited-service wholesalers	Offer fewer services than full-service wholesalers. Limited-service wholesalers are of several types:
Cash-and-carry wholesalers	Carry a limited line of fast-moving goods and sell to small retailers for cash. Normally do not deliver. Example: A small fish store retailer may drive to a cash-and-carry fish wholesaler, buy fish for cash, and bring the merchandise back to the store.
Truck wholesalers (or truck jobbers)	Perform primarily a selling and delivery function. Carry limited line of semi-perishable merchandise (such as milk, bread, snack foods), which they sell for cash as they make their rounds to supermarkets, small groceries, hospitals, restaurants, factory cafeterias, and hotels.
Drop shippers	Do not carry inventory or handle the product. On receiving an order, they select a manufacturer, who ships the merchandise directly to the customer. The drop shipper assumes title and risk from the time the order is accepted to its delivery to the customer. They operate in bulk industries, such as coal, lumber, and heavy equipment.
Rack jobbers	Serve grocery and drug retailers, mostly in non-food items. They send delivery trucks to stores, where the delivery people set up toys, paperbacks, hardware items, health and beauty aids, or other items. They price the goods, keep them fresh, set up point-of-purchase displays, and keep inventory records. Rack jobbers retain title to the goods and bill the retailers only for the goods sold to consumers.
Producers' cooperatives	Are owned by farmer members and assemble farm produce to sell in local markets. The co-op's profits are distributed to members at the end of the year. They often attempt to improve product quality and promote a co-op brand name, such as Sun Maid raisins, Sunkist oranges, or Diamond walnuts.
Mail-order wholesalers	Send catalogs to retail, industrial, and institutional customers featuring jewelry, cosmetics, specialty foods, and other small items. Maintain no outside sales force. Main customers are businesses in small outlying areas. Orders are filled and sent by mail, truck, or other transportation.
Brokers and agents	Do not take title to goods. Main function is to facilitate buying and selling, for which they earn a commission on the selling price. Generally specialize by product line or customer type.
Brokers	Bring buyers and sellers together and assist in negotiation. Brokers are paid by the party who hired the broker and do not carry inventory, get involved in financing, or assume risk. Examples include food brokers, real estate brokers, insurance brokers, and security brokers.
Agents	Represent either buyers or sellers on a more permanent basis than brokers do. There are four types:
Manufacturers' agents	Represent two or more manufacturers of complementary lines. A formal written agreement with each manufacturer covers pricing, territories, order handling, delivery service and warranties, and commission rates. Often used in such lines as apparel, furniture, and electrical goods. Most manufacturers' agents are small businesses, with only a few skilled salespeople as employees. They are hired by small manufacturers who cannot afford their own field sales forces and by large manufacturers who use agents to open new territories or to cover territories that cannot support full-time salespeople.

TABLE 13.4 Major Types of Wholesalers—Continued

Type	Description
Selling agents	Have contractual authority to sell a manufacturer's entire output. The manufacturer either is not interested in the selling function or feels unqualified. The selling agent serves as a sales department and has significant influence over prices, terms, and conditions of sale. Found in product areas such as textiles, industrial machinery and equipment, coal and coke, chemicals, and metals.
Purchasing agents	Generally have a long-term relationship with buyers and make purchases for them, often receiving, inspecting, warehousing, and shipping the merchandise to the buyers. They provide helpful market information to clients and help them obtain the best goods and prices available.
Commission merchants	Take physical possession of products and negotiate sales. Normally, they are not employed on a long-term basis. Used most often in agricultural marketing by farmers who do not want to sell their own output and do not belong to producers' cooperatives. The commission merchant takes a truckload of commodities to a central market, sells it for the best price, deducts a commission and expenses, and remits the balance to the producers.
Manufacturers' and retailers' branches and offices	Wholesaling operations conducted by sellers or buyers themselves rather than through independent wholesalers. Separate branches and offices can be dedicated to either sales or purchasing.
Sales branches and offices	Set up by manufacturers to improve inventory control, selling, and promotion. *Sales branches* carry inventory and are found in industries such as lumber and automotive equipment and parts. *Sales offices* do not carry inventory and are most prominent in dry-goods and notions industries.
Purchasing officers	Perform a role similar to that of brokers or agents but are part of the buyer's organization. Many retailers set up purchasing offices in major market centers such as Hong Kong, Tokyo, Shanghai, and Taipei.

Target Market and Positioning Decision

Like retailers, wholesalers must define their target markets and position themselves effectively—they cannot serve everyone. They can choose a target group by size of customer (only large retailers), type of customer (convenience stores only), need for service (customers who need credit), or other factors. Within the target group, they can identify the more profitable customers, design stronger offers, and build better relationships with them. They can propose automatic reordering systems, set up management-training and advising systems, or even sponsor a voluntary chain. They can discourage less profitable customers by requiring larger orders or adding service charges to smaller ones.

Marketing Mix Decisions

Like retailers, wholesalers must decide on product assortment and services, prices, promotion, and place. The wholesaler's "product" is the assortment of *products and services* that it offers. Wholesalers are under great pressure to carry a full line and to stock enough for immediate delivery. But this practice can damage profits. Wholesalers today are cutting down on the number of lines they carry, choosing to carry only the more profitable ones. Wholesalers are also rethinking which services count most in building strong customer relationships and which should be dropped or charged for. The key is to find the mix of services most valued by their target customers.

Price is also an important wholesaler decision. Wholesalers usually mark up the cost of goods by a standard percentage—say, 20 percent. Expenses may run 17 percent of the gross margin, leaving a profit margin of 3 percent. In grocery wholesaling, the average profit margin is often less than 2 percent. Wholesalers are trying new pricing approaches. They may cut their margin on some lines in order to win important new customers. They may ask suppliers for special price breaks when they can turn them into an increase in the supplier's sales. However, the amount of markup which varies from country to country tends to be smaller in Asian countries than in the United States and Europe. Markup by wholesalers is even smaller in Japan due to long distribution channels and in Hong Kong, due to keen competition.

Although *promotion* can be critical to wholesaler success, most wholesalers are not promotion-minded. Their use of trade advertising, sales promotion, personal selling, and public relations is largely scattered and unplanned. Many are behind the times in personal selling—they still see selling as a single salesperson talking to a single customer instead of as a team effort to sell, build, and service major accounts. Wholesalers also need to adopt some of the non-personal promotion techniques used by retailers. They need to develop an overall promotion strategy and to make greater use of supplier promotion materials and programs.

Finally, *place* is important—wholesalers must choose their locations, facilities, and Web locations carefully. Wholesalers typically locate in low-rent, low-tax areas and tend to invest little money in their buildings, equipment, and systems. As a result, their materials-handling and order-processing systems are often outdated. In recent years, however, large and progressive wholesalers are reacting to rising costs by investing in automated warehouses and online ordering systems. Orders are fed from the retailer's system directly into the wholesaler's computer, and the items are picked up by mechanical devices and automatically taken to a shipping platform where they are assembled. Most large wholesalers are using technology to carry out accounting, billing, inventory control, and forecasting. Modern wholesalers are adapting their services to the needs of target customers and finding cost-reducing methods of doing business.

❯ Wholesalers are reacting to rising costs by investing in automated warehouses and online ordering systems. The items are picked up by mechanical devices and automatically taken to a shipping platform where they are assembled.

Trends in Wholesaling

Today's wholesalers remain vulnerable to one of the most enduring trends of the last decade—fierce resistance to price increases and the weeding out of suppliers who are not adding value based on cost and quality. Progressive wholesalers constantly watch for better ways to meet the changing needs of their suppliers and target customers, because in the long run, they must add value by increasing the efficiency and effectiveness of the entire marketing channel.

McKesson, a wholesaler of pharmaceuticals, health and beauty care, home health care, and medical supply and equipment products in the United States, provides another example of progressive, value-adding wholesaling. To survive, McKesson has to remain more cost effective than manufacturers' sales branches. Thus, the company has built efficient automated warehouses, established direct computer links with drug manufacturers, and set up extensive online supply-management and accounts-receivable systems for customers. It offers retail pharmacists a wide range of online resources, including supply-management assistance, catalog searches, real-time order tracking, and an account-management system. It has also created solutions such as automated pharmaceutical-dispensing machines that assist pharmacists by reducing costs and improving accuracy.

The distinction between large retailers and large wholesalers continues to blur. Many retailers now operate formats such as wholesale clubs and hypermarkets that perform many wholesale functions. In return, many large wholesalers are setting up their own retailing operations.

Wholesalers will continue to increase the services they provide to retailers—retail pricing, cooperative advertising, marketing and management information reports, accounting services, online transactions, and others. Rising costs on the one hand, and the demand for increased services on the other, will put the squeeze on wholesaler profits. Wholesalers who do not find efficient ways to deliver value to their customers will soon drop by the wayside. However, the increased use of computerized, automated, and Web-based systems will help wholesalers to contain the costs of ordering, shipping, and inventory holding, boosting their productivity.

› Wholesalers who do not find efficient ways to deliver value to their customers will soon drop by the wayside.

Reviewing Objectives and Key Terms

Retailing and wholesaling consist of many organizations bringing goods and services from the point of production to the point of use. In this chapter, we examined the nature and importance of retailing, the major types of retailers, the decisions retailers make, and the future of retailing. We then examined these same topics for wholesalers.

OBJECTIVE 1 Explain the role of retailers in the distribution channel and describe the major types of retailers. (pp. 412–420)

Retailing includes all the activities involved in selling goods or services directly to final consumers for their personal, non-business use. Retail stores come in all shapes and sizes, and new retail types keep emerging. Store retailers can be classified by the *amount of service* they provide (self-service, limited service, or full service), *product line sold* (specialty stores, department stores, supermarkets, convenience stores, superstores, and service businesses), and *relative prices* (discount stores and off-price retailers). Today, many retailers are banding together in corporate and contractual *retail organizations* (corporate chains, voluntary chains, retailer cooperatives, and franchise organizations).

OBJECTIVE 2 Describe the major retailer marketing decisions. (pp. 420)

Retailers are always searching for new marketing strategies to attract and hold customers. They face major marketing decisions about segmentation and targeting, store differentiation and positioning, and the retail marketing mix.

Retailers must first segment and define their target markets and then decide how they will differentiate and position themselves in these markets. Those that try to offer "something for everyone" end up satisfying no market well. In contrast, successful retailers define their target markets well and position themselves strongly.

Guided by strong targeting and positioning, retailers must decide on a retail marketing mix—product and services assortment, price, promotion, and place. Retail stores are much more than simply an assortment of goods. Beyond the products and services they offer, today's successful retailers carefully orchestrate virtually every aspect of the consumer store experience.

A retailer's price policy must fit its target market and positioning, products and services assortment, and competition. Retailers use any or all of the five promotion tools—advertising, personal selling, sales promotion, PR, and direct marketing—to reach consumers. Finally, it's very important that retailers select locations that are accessible to the target market in areas that are consistent with the retailer's positioning.

OBJECTIVE 3 Discuss the major trends and developments in retailing. (pp. 426–431)

Retailers operate in a harsh and fast-changing environment, which offers threats as well as opportunities. Following years of good economic times for retailers, the recent recession turned many retailers' fortunes from boom to bust. New retail forms continue to emerge. At the same time, however, different types of retailers are increasingly serving similar customers with the same products and prices (retail convergence), making differentiation more difficult. Other trends in retailing include the rise of mega-retailers, the rapid growth of non-store retailing, the growing importance of retail technology, a surge in green retailing, and the global expansion of major retailers.

OBJECTIVE 4 Explain the major types of wholesalers and their marketing decisions. (pp. 431–438)

Wholesaling includes all the activities involved in selling goods or services to those who are buying for the purpose of resale or business use. Wholesalers fall into three groups. First, *merchant wholesalers* take possession of the goods. They include *full-service wholesalers* (wholesale merchants and industrial distributors) and *limited-service wholesalers* (cash-and-carry wholesalers, truck wholesalers, drop shippers, rack jobbers, producers' cooperatives, and mail-order wholesalers). Second, *brokers* and *agents* do not take possession of the goods but are paid a commission for aiding buying and selling. Finally, *manufacturers' sales branches and offices* are wholesaling operations conducted by non-wholesalers to bypass the wholesalers.

Like retailers, wholesalers must target carefully and position themselves strongly. And, like retailers, wholesalers must decide on product and service assortments, prices, promotion, and place. Progressive wholesalers constantly watch for better ways to meet the changing needs of their suppliers and target customers. They recognize that, in the long run, their only reason for existence comes from adding value by increasing the efficiency and effectiveness of the entire marketing channel. As with other types of marketers, the goal is to build value-adding customer relationships.

Key Terms

OBJECTIVE 1
Retailing (p 410)
Retailer (p 410)
Specialty store (p 413)
Department store (p 413)
Supermarket (p 413)
Convenience store (p 414)
Superstore (p 414)
Category killer (p 414)
Discount store (p 415)
Off-price retailer (p 415)
Independent off-price retailer (p 415)
Factory outlet (p 415)
Warehouse club (p 415)
Corporate chains (p 417)
Franchise (p 417)

OBJECTIVE 2
Shopping center (p 423)

OBJECTIVE 4
Wholesaling (p 433)
Wholesaler (p 433)
Merchant wholesaler (p 434)
Broker (p 434)
Agent (p 434)
Manufacturers' sales branches and offices (p 434)

Discussing the Concepts

1. Discuss how retailers and wholesalers add value to the marketing system. Explain why marketers are embracing the concept of *shopper marketing*. (AACSB: Communication; Reflective Thinking)
2. Discuss the factors used to classify retail establishments and list the types within each classification. (AACSB: Communication)
3. List and briefly discuss the trends impacting the future of retailing. (AACSB: Communication)
4. Suppose you are a manufacturer's agent for three lines of complementary women's apparel. Discuss the types of marketing mix decisions you will make. (AACSB: Communication; Reflective Thinking)
5. Discuss the different organizational approaches for retailers and provide an example of each. (AACSB: Communication; Reflective Thinking)
6. What is retail convergence? Has it helped or harmed small retailers? (AACSB: Communication; Reflective Thinking)
7. What policy should Samsung set for selling High Resolution Digital Televisions (HDTVs) and digital cameras to off-price retailers?
8. Retailers are always searching for new marketing strategies to attract and retain customers. Using a top department store as an example, list and briefly describe the strategies this department store uses to differentiate itself from newly developed shopping malls.
9. Across Asian countries, given the emergence of supermarkets and major discount stores, the traditional markets, e.g. wet markets or food stalls (either on the streets or in government buildings), still prevail. Who are the target market segments of these traditional markets? How could these markets survive?

Applying the Concepts

1. The atmosphere in a retail store is carefully crafted to influence shoppers. Select a retailer with both a physical store and an online store. Describe the elements of the physical store's atmosphere, such as coloring, lighting, music, scents, and décor. What image is the store's atmosphere projecting? Is the atmosphere appropriate given the store's merchandise assortment and target market? Which elements of the physical store's atmosphere are in the online store's atmosphere? Does the retailer integrate the physical store's atmosphere with its online presence? Explain. (AACSB: Communication; Use of IT; Reflective Thinking)
2. Shop for a product of your choice on Amazon.com. Do consumer reviews influence your perception of a product or brand offered? Consumers participating in the Amazon Vine Program submit many of the product reviews found on Amazon.com. Learn about this program and discuss whether or not a review from a consumer in this program is more useful than a review from a consumer not in this program. (AACSB: Communication; Use of IT; Reflective Thinking)
3. Determining the target market and the positioning for a retail store are very important marketing decisions. In a small group, develop the concept for a new retail store. Who is the target market for your store? How is your store positioned? What retail atmospherics will enhance this positioning effectively to attract and satisfy your target market? (AACSB: Communication; Reflective Thinking)

Focus on Technology

"Mirror, mirror on the wall, who's the fairest of them all?" This is no fairy tale feature anymore and can be found online or at a retailer near you. EZFace, a virtual mirror using augmented reality, is changing the cosmetics aisle in some Wal-mart stores. A shopper stands in front of the magical mirror, swipes the bar code of the cosmetic she is interested in, and virtually tries it on without opening the package. No more regrets about buying the wrong shade of lipstick! Self-service retailers are interested in this technology because it can reduce damaged inventory from consumers opening a package and then not buying it. This is just one of the interactive digital technologies that retailers are experimenting with; keep an eye out for many more!

1. Visit www.ezface.com or www.ray-ban.com/usa/science/virtual-mirror and use the virtual mirror to try on makeup or sunglasses. Does this technology help you select an appropriate product for your face? (AACSB: Communication; Use of IT; Reflective Thinking)
2. Find other examples of how retailers are using digital technologies, such as digital signage and mobile technologies, to better serve customers. (AACSB: Communication; Use of IT; Reflective Thinking)

Focus on Ethics

Purchase a television, computer, or other electronic devices and you are bound to be asked whether you would like to purchase a service contract. Most large electronics retailers carefully train their salespeople and cashiers to ask this important question. In fact, some retailers urge their salespeople to exert strong sales pressure to sell these contracts. It's no wonder, because service contracts provide extremely high profits for the retailers, several times the profit margins realized from the equipment you are purchasing. But do you know when to say yes and when to pass on a contract? Most consumers are confused and will buy the contract because the price seems low in comparison to the price of that new plasma television. Experts, such as those at the Consumer Council of Hong Kong, Consumers' Foundation [Taiwan] and SPRING Singapore, generally recommend that buyers pass on these contracts. With increased product reliability and decreasing prices that make replacement more reasonable, such contracts are rarely worth the price. If most consumers do not need them, should retailers continue to offer and promote them?

1. Is it ethical for retailers to offer and strongly promote service contracts?
2. When should you purchase a service contract?
3. Why do retailers continue to offer these contracts, even under criticism from customer advocacy groups?

Marketing & the Economy

Wal-Mart

In tough economic times, low-price leaders generally do well. They keep existing customers and gain new ones who are trading down. That was the case for Wal-Mart throughout most of the recent economic downturn. But more recently, Wal-Mart has seen a changing dynamic. By late 2010, traffic and same-store sales at U.S. stores had been declining for a year. This is puzzling, especially given that the retailer had been aggressively discounting its already low prices during that period. There are two possible reasons for Wal-Mart's declining numbers. First, Wal-Mart's core shoppers have lower average incomes than typical Target shoppers and have felt little relief from the economic recovery. Already at the ends of their budgets, they are not ready to increase spending, even when something enticing goes on sale. Second, better-off customers who traded down to Wal-Mart are now feeling more relaxed about spending. But rather than spending at Wal-Mart, those customers are returning to other stores they frequented prior to the economic downturn. With a bleak forecast for job growth, Wal-Mart's revenue trend is not expected to change anytime soon.

1. Are there any other options for Wal-Mart other than waiting out the recovering economy?
2. What needs to change in the external environment before Wal-Mart sees stronger growth?

Marketing by the Numbers

Retailers need merchandise to make sales. In fact, a retailer's inventory is its biggest asset. The cost of goods sold greatly impacts a retailer's gross profit margin. Moreover, not stocking enough merchandise can result in lost sales, whereas carrying too much inventory increases costs and lowers margins. Both circumstances reduce profits. One measure of a reseller's inventory management effectiveness is its *stockturn rate* (also called *inventory turnover rate* for manufacturers). The key to success in retailing is realizing a large volume of sales on as little inventory as possible while maintaining enough stock to meet customer demands. Refer to Appendix 2 to answer the following questions.

1. Calculate the gross margin percentage of a retailer with annual sales of $5,000,000 and cost of goods sold of $2,000,000. (AACSB: Analytical Reasoning)
2. Determine the stockturn rate if this retailer carries an average inventory at a cost of $750,000, with a cost of goods sold of $2,000,000. If this company's stockturn rate was 3.5 last year, is the stockturn rate you just calculated better or worse? Explain. (AACSB: Communication; Analytical Reasoning)

Video Case

Zappos.com

These days, online retailers are a dime a dozen. But in less than 10 years, Zappos.com has become a billion dollar company. How did it hit the dot-com jackpot? By providing some of the best service available anywhere. Zappos' customers are showered with such perks as free shipping both ways, surprise upgrades to overnight service, a 365-day return policy, and a call center that is always open. Customers are also delighted by employees who are empowered to spontaneously hand out rewards based on unique needs. It's no surprise that Zappos.com has an almost cult-like following of repeat customers.

After viewing the video featuring Zappos.com, answer the following questions.

1. How has Zappos.com differentiated itself from other retailers through each element of the retail marketing mix?
2. What is the relationship between how Zappos.com treats its employees and how it treats its customers?
3. Why did Amazon.com buy Zappos.com, given that it already sells what Zappos.com sells?

Company Case

Uber:
Delivering People and Goods

If you had asked any customer before 2009, hailing a cab simply meant flagging a cab that you see on the streets. However, with the introduction of Uber in 2009, the meaning of 'hailing a cab' has changed.

Travis Kalanick and Garrett Camp founded Uber in 2009. The Android, iOS, and Windows versions of the phone app have rapidly expanded to 57 countries since then, gaining much popularity across various states. Kalanick believes that there is always a solution to every problem, if you were creative enough. This 'edge' of creativity is seen in Uber, a platform that essentially connects riders with drivers using their phone's GPS.

Uber prides itself in being a 'platform,' with a smooth interface that lets one know of the rider and driver's location real-time with rare report errors. Unlike traditional taxi booking services, Uber removes the question of when the ride will actually arrive from the customer point of view. Unlike traditional taxi operator hotlines, with Uber, you do not have to call anyone for confirmation of your driver. Being a 'platform', Uber also has gone beyond just providing a ride for customers by showing the potential to be a groundbreaking delivery service—from making quick deliveries from the nearest pharmacy or your favorite ice cream stand miles away.

Besides being just a ridesharing service, Uber has realized its potential to be a potent delivery service. Uber Essentials in Washington, D.C., allows users to add products from its inventory list following which, its drivers would get them at the nearest convenience stores for its customers. Further, the launch of services such as Uber Cargo in Hong Kong and Uber Rush in New York, which uses vans and bike messengers respectively to deliver parcels, shows a glimpse of Uber's potential to be a real-time logistics network.

As these services deliver parcels through the same seamless cashless and convenient process as per any other Uber service, they would only delight existing Uber fans if they were extended to other cities. While global logistic powerhouses such as FedEx or UPS already have drivers every day to meeting delivery needs, Uber's existence as a real-time network means that its available drivers at any block at a given minute can instantly fulfill a delivery need.

Being a 'platform', Uber operates whenever there is demand. If there is always someone looking for a ride and drivers to provide one, Uber is alive. This process is made easier by the fact that the entire transaction is completely cashless as payment is done between Uber and the rider via their credit card, following which, Uber pays out to the driver while taking a small cut for itself.

Uber's service is further branched into various specialties, depending on the type of car and the number of passengers riding. UberX, known as the low-cost Uber, provides everyday cars such as Toyota Prius, Honda Civics that seat four passengers. UberBlack, the original service provides a luxury black sedan that is pricier while UberSUV or UberXL provide SUVs or Minivans that can seat up to 6 passengers.

There is also UberTaxi, where local taxi drivers use their taxis for the app's service. However, the range of services for every country or city varies according to local regulations and individual city's base of operations. Some countries such as Thailand have gone as far as to provide UberCopter, a premium service where one can hire a helicopter for a ride.

Uber constantly addresses the issue of safety in the service that its platform provides. Safety refers to not just the safety of the riders but the safety of the drivers too. Unlike conventional taxi drivers, Uber drivers are able to view all the particulars about their rider within the app—such access has never been available for any driver before. This ensures the safety of the driver, as they know beforehand whom they are ferrying, via the app.

One of Uber's female drivers from India, Maya, states "that she is not afraid of driving at night." Drivers are even able to give feedback on their riders on the app via the simple press of a button. Riders too, are guaranteed of their safety. Uber requires every driver to have a license and pass a background check. They must also own the car and it must be insured. However, the process of being an Uber driver is much more convenient, hassle-free and easier than that of being a regular taxi driver.

However, not all is smooth sailing, as it seems. The rapid expansion of Uber has come at the cost of the conventional taxi operators. Since the launch of the Uber Taxi service in San Francisco in 2012, the average monthly trip per city taxi has nose-dived from 1424 in 2012 to 504 in 2014. As such, many taxi companies have protested vehemently against the app, calling for local authorities to take it down or subject it to strict local regulations. This has resulted in some countries and cities implementing a blanket ban on the app completely or implementing measures to minimize conflicts between the taxi operators and the app. Uber's cost break down, which consists of a base fare and then a per-minute and per-mile charge, has been viewed to be generally "less" than that of regular taxis. UberX, the lower end of the Uber service claims to be 26 percent cheaper then the pricing of a regular cab.

Uber's expansion into one of the world's largest markets, India, has been laden with obstacles. As the case in many other countries, Uber faces much protest from the local taxi operators as it started out. Mumbai's auto union leader Shashank Rao highlighted Uber as one of their competitors, eating into their revenues and commented that the government should take action against the newcomer, as they are not subject to the same regulations as regular taxi operators.

Meanwhile, the car ride-hailing service has also expanded further into the east by setting up shop in China. The service began to reap the benefits of tapping onto the potential of a 1.4 billion-sized population in China. As of June 2015, the app was reported to have been logging an astonishing 1 million rides per day. What makes this even more surprising is that Uber has only operated in 11 Chinese cities so far. Uber aims to expand to over 50 cities in China and given its current unprecedented growth rate, this means that Uber will join the list of foreign companies that have been essential in spurring growth in the less developed areas.

However, Uber's venture into China is not unchallenged as it faces stiff competition from another local taxi booking app Didi Kuaidi. Didi Dache and Kuaidi Dache were market leaders with up to 90% of the market share, when they merged in February 2015. Didi Kuaidi has since, been valued at $8.75 billion.

Uber positions itself as a 'vibrant', 'fun' and 'boyish' brand. Such a position differentiates Uber as a unique brand that customers can have a connection with, especially given that most companies in the transportation sector rarely place much emphasis on branding themselves. Most taxi operators or Uber's competitors such as Didi Kuaidi in China or GrabTaxi in Southeast Asia rely heavily on the economic viability and rationality of their service for their business and hence, appear to be of the mindset that there would always be a demand for their services as long as they provide it.

Along with its branding, Uber aggressively markets its app by encouraging customers to download it through providing free credits or discounts for their first ride with the app. However, Uber does face some serious challenges, looking forward. As an app or platform being the marketplace linking rider and driver, its business model or service is easily replicable or not hard to imitate. This is evident from the rise of similar car hailing or taxi booking apps such as GrabTaxi, Hailo, Ola, or Didi Kuaidi in various Asian markets. Regardless of the differences in their interfaces, these applications essentially operate as a marketplace bringing drivers and riders together—similar to the service that Uber provides, in the eyes of the customer.

An example of the Uber service being replicated in local markets can be seen in the case of Jakarta. Go-Jek, a motorbike-hailing app in Jakarta, was launched in 2011 before Uber entered the city. The app allows commuters to get across its jam-packed city by booking a motorbike. The exponential growth of the app stems from the fact that motorbikes are a popular means of transport within the Indonesian capital.

In 2015, the app had a revamped mobile app interface, resulting in it having been downloaded 400 000 times and an increase in its drivers from 1000 to 10000 as of June 2015. It is a common sight to see motorists in prominent green jackets and helmets providing an alternative and efficient means of transportation to local commuters.

Uber Indonesia faces the threat of such local competitive services being introduced even before it enters a city. In June 2014, it started its Jakarta operations as a later entrant.

Questions for Discussion

1. What is Uber's appeal? Identify what needs it fulfills.
2. Identify Uber's direct and indirect competitors. Do a Michael Porters' five forces assessment of the industry Uber is in. Is it profitable in the short and long run?
3. How should Uber position itself, to sustain its current growth rate, in light of the competition it faces? As a delivery company? As a taxi company?

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Objective Outline

OBJECTIVE 1
Define the five promotion mix tools for communicating customer value.
The Promotion Mix (449)

OBJECTIVE 2
Discuss the changing communications landscape and the need for integrated marketing communications.
Integrated Marketing Communications (450-455)

OBJECTIVE 3
Outline the communication process and the steps in developing effective marketing communications.
A View of the Communication Process (455-457)
Steps in Developing Effective Marketing Communication (457-466)

OBJECTIVE 4
Explain the methods for setting the promotion budget and factors that affect the design of the promotion mix.
Setting the Total Promotion Budget and Mix (466-471)
Socially Responsible Marketing Communication (471-472)

Chapter 14

Communicating Customer Value: Integrated Marketing Communications Strategy

Previewing the Concepts

In this and the next three chapters, we'll examine the last of the marketing mix tools—promotion. Companies must do more than just create customer value. They must also use promotion to clearly and persuasively communicate that value. You'll find that promotion is not a single tool but rather a mix of several tools. Ideally, under the concept of integrated marketing communications, the company will carefully coordinate these promotion elements to deliver a clear, consistent, and compelling message about the organization and its products. We'll begin by introducing you to the various promotion mix tools. Next, we'll examine the rapidly changing communications environment and the need for integrated marketing communications. Finally, we'll discuss the steps in developing marketing communications and the promotion budgeting process. In the next three chapters, we'll visit the specific marketing communications tools.

To start this chapter, let's look at Lenovo and the reasons for going into social media communications.

Lenovo

Ryan Higa, a YouTube sensation, is Chinese electronics manufacturer Lenovo's social media ambassador.

The reasons for this choice are aplenty. People are attracted to Higa because he comes across as honest, down-to-earth, and authentic in his outlook with unabashed goofiness in his videos, but more than that, Lenovo is a brand that in the United States, where Higa's main audience of millennials lives, is better known for its business computers than its tablets. Choosing Higa is one step towards getting the brand and its gadgets better known to an audience that is unfamiliar with the Lenovo's legacy from IBM.

According to Lenovo, the company does not limit or try to guide Higa in what he says or does with the

Having a social personality as a spokesperson ensures a fan base for the brand who is engaged in what the personality has to talk about.

product. It trusts that Higa will know what to do and not jeopardize the brand, and its market value, while creating videos.

For instance in the first video, Higa discussed Lenovo's Yoga tablet. The comments from viewers were many—there were a number of questions about the product and what it can do and, most importantly, there were responses to these questions from viewers that were not only accurate, instructive with links to other sites, but also favorable to the product and the company. Lenovo ended up having a crowdsourced group of brand ambassadors spreading favorable word of mouth. The comments of these organically-grown brand ambassadors are perceived as credible and objective as they were not paid by Lenovo to show such support.

In the same way, using Higa as a social media ambassador may well be more effective than using a superstar celebrity. While the latter can garner attention, it is unlikely that a celebrity would engage the audience to the brand at a meaningful level. The audience may be more interested in the celebrity than in the product itself.

In contrast, social media personalities have fan bases cultivated from an interest in what the personalities have to say. Hence, having a social media personality as a spokesperson ensures a fan base for the brand who is engaged in what the personality has to talk about.[1]

Building good customer relationships calls for more than just developing a good product, pricing it attractively, and making it available to target customers. Companies must also *communicate* their value propositions to customers, and what they communicate should not be left to chance. All communications must be planned and blended into carefully integrated programs. Just as good communication is important in building and maintaining any kind of relationship, it is a crucial element in a company's efforts to build profitable customer relationships.

The Promotion Mix

A company's total **promotion mix**—also called its **marketing communications mix**—consists of the specific blend of advertising, sales promotion, public relations, personal selling, and direct marketing tools that the company uses to persuasively communicate customer value and build customer relationships. Definitions of the five major promotion tools follow:[2]

- *Advertising.* Any paid form of non-personal presentation and promotion of ideas, goods, or services by an identified sponsor.
- *Sales promotion.* Short-term incentives to encourage the purchase or sale of a product or service.
- *Public relations.* Building good relations with the company's various publics by obtaining favorable publicity, building up a good corporate image, and handling or heading off unfavorable rumors, stories, and events.
- *Personal selling.* Personal presentation by the firm's sales force for the purpose of making sales and building customer relationships.
- *Direct marketing.* Direct connections with carefully targeted individual consumers to both obtain an immediate response and cultivate lasting customer relationships—the use of direct mail, the telephone, direct-response television, email, the Internet, and other tools to communicate directly with specific consumers.

Each category involves specific promotional tools used to communicate with consumers. For example, **advertising** includes broadcast, print, Internet, outdoor, and other forms. **Sales promotion** includes discounts, coupons, displays, and demonstrations. **Personal selling** includes sales presentations, trade shows, and incentive programs. **Public relations (PR)** includes press releases, sponsorships, special events, and Web pages. And **direct marketing** includes catalogs, telephone marketing, kiosks, the Internet, and more.

At the same time, marketing communication goes beyond these specific promotion tools. The product's design, its price, the shape and color of its package, and the stores that sell it—all communicate something to buyers. Thus, although the promotion mix is the company's primary communication activity, the entire marketing mix—product, price, place, and promotion—must be coordinated for greatest communication impact.

Promotion mix (or marketing communications mix)
The specific blend of advertising, sales promotion, public relations, personal selling, and direct marketing tools that the company uses to persuasively communicate customer value and build customer relationships.

Advertising
Any paid form of non-personal presentation and promotion of ideas, goods, or services by an identified sponsor.

Sales promotion
Short-term incentives to encourage the purchase or sale of a product or service.

Public relations (PR)
Building good relations with the company's various publics by obtaining favorable publicity, building up a good corporate image, and handling or heading off unfavorable rumors, stories, and events.

Personal selling
Personal presentation by the firm's sales force for the purpose of making sales and building customer relationships.

Direct marketing
Direct connections with carefully targeted individual consumers to both obtain an immediate response and cultivate lasting customer relationships.

› The entire marketing mix
– Product, price, place, and promotion, must be coordinated for greatest communication impact.

› **New information technologies**
– Marketers can now amass detailed customer information and keep even closer track of customer needs.

Integrated Marketing Communications

In past decades, marketers have perfected the art of mass marketing: selling highly standardized products to masses of customers. In the process, they have developed effective mass-media communications techniques to support these mass-marketing strategies. Large companies routinely invest millions or even billions of dollars in television, magazine, or other mass-media advertising, reaching tens of millions of customers with a single ad. Today, however, marketing managers face some new marketing communications realities. Perhaps no other area of marketing is changing so profoundly as marketing communications, creating both exciting and anxious times for marketing communicators.

The New Marketing Communications Landscape Model

Two major factors are changing the face of today's marketing communications. First, consumers are changing. Digital, wireless-aged consumers are better informed and more communications empowered. They use the Internet and the social media to find information on their own. They an connect easily with other consumers to exchange brand-related information or even create their own brand messages and experiences. Second, marketing strategies are changing. As mass markets have fragmented, marketers are shifting away from mass marketing. More and more, they are developing focused marketing programs designed to build closer relationships with customers in more narrowly defined micromarkets.

Finally, digital technology has created new opportunities for companies and customers to communicate with one another. There are new information and communications tools—from smartphones and tablets to blogs, social media and online communities, and so on. These developments have a dramatic impact on marketing communications.

Such new media formats let marketers reach smaller communities of consumers in more interactive, engaging ways. Consumers can choose to watch programs whenever and wherever they wish. Increasingly, ads are being produced only for Internet viewing.

As the marketing communications environment shifts, so will the role of marketing communicators. Marketers view themselves as content managers managers. They create, inspire, and share brand messages with customers through a mix of paid, owned, earned, and shared communication channels. These channels include media that are traditional and new, controlled and not controlled (see **Real Marketing 14.1**).

The Need for Integrated Marketing Communications

The shift toward a richer mix of media and communication approaches poses a problem for marketers. Consumers today are bombarded by commercial messages from a broad range of sources. But consumers do not distinguish between message

❯ Audiences are splintering off in new directions and watching videos on portable devices such as the iPad.

sources the way marketers do. In consumer's mind, messages from different media and promotional approaches all become part of a single message about the company. Conflicting messages from these different sources can result in confused company images, brand positions, and customer relationships.

All too often, companies fail to integrate their various communications channels. The result is a hodgepodge of communications to consumers. Mass media ads say one thing, while a price promotion sends a different signal, and a product label creates still another message. Company sales literature says something altogether different, and the company's Web site, emails, Facebook page, or videos posted on YouTube seem out of sync with everything else.

❯ Company sales literature can be found across various platforms, including YouTube.

The problem is that these communications often come from different parts of the company. Advertising messages are planned and implemented by the advertising department or an advertising agency. Personal selling communications are developed by sales management. Other company specialists are responsible for public relations, sales promotion events, Internet marketing, and other forms of marketing communications.

However, whereas these companies have separated their communications tools, customers don't. Mixed content from these sources results in blurred brand perceptions by consumers.

The online, mobile, and social media marketing world present opportunities and challenges. While it gives access to customers, fresh insights in their preferences, and a more creative palette to work with, the environment has become more fragmented and complex.

Therefore, more than ever before, companies are adopting the concept of **integrated marketing communications (IMC)**. Under this concept, as illustrated in **Figure 14.1**, the company carefully integrates its many communications channels to deliver a clear, consistent, and compelling message about the organization and its brands.[3]

Integrated marketing communications (IMC)
Carefully integrating and coordinating the company's many communications channels to deliver a clear, consistent, and compelling message about the organization and its products.

Real Marketing 14.1

Just Don't Call It Advertising: It's Content Marketing

In the good old days, life seemed so simple for advertisers. When a brand needed an advertising campaign, everybody knew what that meant. The brand team and ad agency came up with a creative strategy, developed a media plan, produced and placed a set of TV commercials and magazine or newspaper ads, and maybe issued a press release to stir up some news. But in these digital times, the old practice of placing "advertisements" in well-defined "media" within the tidy framework of a carefully managed "advertising campaign" just doesn't work anymore.

Instead, the lines are rapidly blurring between traditional advertising and new digital, social media, and mobile content. To be relevant, today's brand messages must be social, mobile, interactively engaging, and multi-platformed. Says one industry insider: "Today's media landscape keeps getting more diverse—it's broadcast, cable, and streaming; it's online, tablet, and smartphone; it's video, rich media, social media, branded content, banners, apps, in-app advertising, and interactive technology products."

The new digital landscape has called into question the very definition of advertising. "What Is Advertising Anyway?" asks one provocative headline. Call it whatever you want, admonishes another, but "Just Don't Call It Advertising." Instead, according to many marketers these days, it's "content marketing," creating and distributing a broad mix of compelling content that engages customers, builds relationships with and among them, and moves them to action. To feed today's digital and social media machinery, and to sustain "always-on" consumer conversations, brands need a constant supply of fresh content across a breadth of traditional and digital platforms.

Many advertisers and marketers now view themselves more broadly as content marketing managers who create, inspire, share, and curate marketing content—both their own content and that created by consumers and others. Rather than using traditional media breakdowns, they subscribe to a new framework that builds on how and by whom marketing content is created, controlled, and distributed. The new classification identifies four major types of media: paid, owned, earned, and shared (POES): Paid media—promotional channels paid for by the marketer, including traditional media (such as TV, radio, print, or outdoor) and online and digital media (paid search ads, Web and social media display ads, mobile ads, or email marketing). Owned media—promotional channels owned and controlled by the company, including company Web sites, corporate blogs, owned social media pages, proprietary brand communities, sales forces, and events. Earned media—PR media channels, such as television, newspapers, blogs, online video sites, and other media not directly paid for or controlled by the marketer but that include the content because of viewer, reader, or user interest. Shared media—media shared by consumers with other consumers, such as social media, blogs, mobile media, and viral channels, as well as traditional word of mouth.

In the past, advertisers have focused on traditional paid (broadcast or print) or earned (public relations) media. Now, however, content marketers are rapidly adding the new digital generation of owned (Web sites, blogs, brand communities) and shared (online social, mobile, email) media. Whereas a successful paid ad used to be an end in itself, marketers are now developing integrated marketing content that leverages the combined power of all the POES channels. Thus, many TV ads often aren't just TV ads any more. They're "video content" you might see anywhere—on a TV screen but also on a tablet or phone. Other video content looks a lot like TV advertising but was never intended for TV, such as made-for-online videos posted on Web sites or social media. Similarly, printed brand messages and pictures no longer appear only in carefully crafted magazine ads or catalogs. Instead, such content, created by a variety of sources, pops up in anything from formal ads and online brand pages to mobile and social media and independent blogs.

The new "content marketing" campaigns look a lot different from the old "advertising" campaigns. For example, to move beyond its long-running, traditional "Intel Inside" advertising, Intel recently teamed with computer maker Toshiba to produce an award-winning social media film series, called "Inside." Enlisting the talents of Hollywood directors and actors, the engaging series blurs the lines between advertising, social media, and entertainment. The comedy/ Sci-Fi adventure called "The Power Inside," chronicles the efforts of a Scooby-Doo squad of twenty-somethings to foil the plans of aliens, intent on taking over the world by disguising themselves as mustaches and unibrows. Intel-powered Toshiba Ultrabooks play a central role, but the subtle product placement doesn't come across as an ad.

"The Power Inside" was released in six episodes on YouTube, with traffic driven through Facebook and Twitter (shared media), a dedicated microsite (owned media), and ads placed on Skype and Spotify (paid media). Awareness and popularity of the series were driven higher by mentions and articles in independent blogs and the press (earned media). "The Power Inside" earned even more publicity when its launch coincided perfectly with the awarding of a Daytime Emmy and the coveted Cannes Grand Prix award to the previous Intel/ Toshiba series, "The Beauty Inside." In all, the integrated, multi-platform content marketing campaign created high levels of customer–brand engagement for the two brands.

Careful integration across the POES channels can produce striking communications results. Consider Samsung's "Life's a Photo. Take It." campaign to launch its Web-connected Galaxy Camera in 18 regions worldwide. To show how easily images taken by the camera can be shared instantly anytime, anyplace, Samsung chose 32 prominent Instagramers ("the world's most social photographers") and challenged them to use the new camera to prove that their cities—from London, Amsterdam, Berlin, Madrid, and Milan to Paris, Sydney, and San Francisco—were the most photogenic in the world. Their photos were uploaded to Tumblr, and fans voted for their favorites via Tumblr, Facebook, Twitter, and Pinterest. The winning city—Berlin—hosted a massive final event, where influencers invited from across Europe took photos with the connected camera and saw them projected onto giant, inflatable, 3D projection cubes.

The "Life's a Photo. Take It." campaign, with its rich mix of marketing content, was an unqualified success. During its three-month run, the campaign reached more than 79 million people worldwide. Awareness of the Galaxy Camera rose 58 percent; purchase intent jumped 115 percent. The campaign won a 2013 Interactive Advertising Bureau MIXX award for content marketing, sparking a flurry of additional publicity. Finally, the social media campaign served as a foundation for a series of paid television ads. In the end, Samsung reignited a product category that many considered to be waning—dedicated digital cameras—and became the market leader in Web-connected digital imaging.

So, we can't just call it "advertising" anymore. Today's shifting and sometimes chaotic marketing communications environment calls for more than simply creating and placing ads in well-defined and controlled media spaces. Rather, today's marketing communicators must be marketing content strategists, creators, connectors, and catalysts who manage brand conversations with and among customers and help those conversations catch fire across a fluid mix of channels. That's a tall order, but with today's new thinking, anything is POES–ible!

❯ **Content marketing**–Intel's and Toshiba's award-winning "Inside" social media film series blurs the line between advertising, social media, and entertainment, creating high levels of customer–brand engagement for the two brands.

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FIGURE 14.1
Integrated marketing communications

IMC calls for recognizing all contact points where the customer may encounter the company and its brands (see **Figure 14.2**). Each *brand contact* will deliver a message, whether good, bad, or indifferent. The company wants to deliver a consistent and positive message with each contact. IMC leads to a total marketing communication strategy aimed at building strong customer relationships by showing how the company and its products can help customers solve their problems.

FIGURE 14.2
Overview of the integrated marketing communications process

IMC ties together all of the company's messages and images. The company's television and print ads have the same message, look, and feel as its email and personal selling communications. And its public relations materials project the same image as its Web site.

Coca-Cola – Coke's "Mirage" campaign tells the story of three bands of desert vagabonds—Cowboys, Showgirls, and *Mad Max*-inspired "Badlanders"—as they trek through the blazing-hot desert pursuing the same elusive mirage—a frosty bottle of Coca-Cola. The Mirage campaign began two weeks before the Super Bowl with a 30-second teaser ad on *American Idol* and posted on YouTube and other online destinations inviting fans to visit CokeChase.com to get to know the story and teams. Then, during the big game, a 60-second Mirage ad set up the exciting chase, with a cliff-hanging close that urged viewers to visit CokeChase.com, where they would help decide the outcome by casting votes for their favorite team and throwing obstacles in front of rival teams. During the rest of the game, Coca-Cola listening team monitored related activity on major social media, and put fans in the middle of the action by posting real-time chase updates on Facebook, YouTube and Twitter and chase photos on Tumblr and Instagram. The Mirage campaign exceeded expectations. In addition to the usual huge Super Bowl audience numbers, the campaign captured an eye-popping 8.2 million online and social-media interactions and 910,000 votes, fare exceeding the brand's internal goals of 1.6 million interactions and 400,000 votes.

In the past, no one person or department was responsible for thinking through the communication roles of the various promotion tools and coordinating the promotion mix. To help implement integrated marketing communications, some companies appoint a marketing communications director who has overall responsibility for the company's communications efforts. This helps to produce better communications consistency and greater sales impact. It places the responsibility in someone's hands—where none existed before—to unify the company's image as it is shaped by thousands of company activities.

A View of the Communication Process

Integrated marketing communications involves identifying the target audience and shaping a well-coordinated promotional program to obtain the desired audience response. Too often, marketing communications focus on immediate awareness, image, or preference goals in the target market. But this approach to communication is too shortsighted. Today, marketers are moving toward viewing communications as *managing the customer relationship over time*.

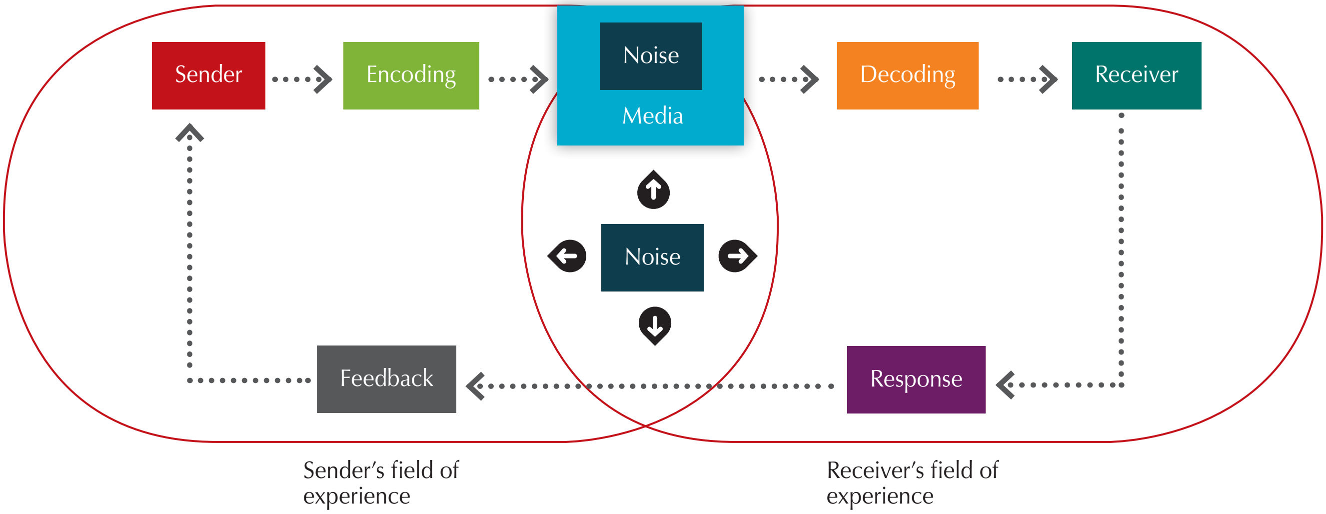
Because customers differ, communications programs need to be developed for specific segments, niches, and even individuals. And, given the new interactive communications technologies, companies must ask not only, "How can we reach our customers?" but also, "How can we find ways to let our customers reach us?"

Thus, the communications process should start with an audit of all the potential contacts target customers may have with the company and its brands. For example, someone purchasing a new kitchen appliance may talk to others, see television ads, read articles and ads in newspapers and magazines, visit various Web sites, and check out appliances in one or more stores. The marketer needs to assess what influence each of these communications experiences will have at different stages of the buying process. This understanding will help marketers allocate their communication dollars more efficiently and effectively.

To communicate effectively, marketers need to understand how communication works. Communication involves the nine elements shown in **Figure 14.3**. Two of these elements are the major parties in a communication—the *sender* and the *receiver*. Another two are the major communication tools—the *message* and the *media*. Four more are major communication functions—*encoding*, *decoding*, *response*, and *feedback*. The last element is *noise* in the system. Definitions of these elements follow and are applied to an ad for Hewlett-Packard (HP) LaserJet color copiers:

- *Sender*. The *party sending the message* to another party—here, HP.
- *Encoding*. The process of *putting thought into symbolic form*—HP's advertising agency assembles words and illustrations into an advertisement that will convey the intended message.
- *Message*. The *set of symbols* that the sender transmits—the actual HP copier ad.

FIGURE 14.3
Elements in the communication process



- *Media*. The *communication channels* through which the message moves from sender to receiver—in this case, the specific magazines that HP selects.
- *Decoding*. The process by which the receiver *assigns meaning to the symbols* encoded by the sender—a consumer reads the HP copier ad and interprets the words and illustrations it contains.
- *Receiver*. The *party receiving the message* sent by another party—the home office or business customer who reads the HP copier ad.
- *Response*. The *reactions of the receiver* after being exposed to the message—any of hundreds of possible responses, such as the consumer is more aware of the attributes of HP copiers, visits the HP Web site for more information, actually buys an HP copier, or does nothing.
- *Feedback*. The part of the *receiver's response communicated back to the sender*—HP research shows that consumers are struck by and remember the ad, or consumers write or call HP praising or criticizing the ad or HP's products.

- *Noise*. The *unplanned static or distortion* during the communication process, which results in the receiver getting a different message than the one the sender sent—the consumer is distracted while reading the magazine and misses the HP ad or its key points.

For a message to be effective, the sender's encoding process must mesh with the receiver's decoding process. The best messages consist of words and other symbols that are familiar to the receiver. The more the sender's field of experience overlaps with that of the receiver, the more effective the message is likely to be. Marketing communicators may not always *share* their consumer's field of experience. For example, an advertising copywriter from one socioeconomic stratum might create ads for consumers from another stratum—say, wealthy business owners. However, to communicate effectively, the marketing communicator must *understand* the consumer's field of experience.

This model points out several key factors in good communication. Senders need to know what audiences they wish to reach and what responses they want. They must be good at encoding messages that take into account how the target audience decodes them. They must send messages through media that reach target audiences, and they must develop feedback channels so that they can assess the audience's response to the message.

Steps in Developing Effective Marketing Communication

We now examine the steps in developing an effective integrated communications and promotion program. Marketers must do the following: identify the target audience; determine the communication objectives; design a message; choose the media through which to send the message; select the message source; and collect feedback (see **Figure 14.4**).

Identifying the Target Audience

A marketing communicator starts with a clear target audience in mind. The audience may be potential buyers or current users, those who make the buying decision or those who influence it. The audience may be individuals, groups, special publics, or the general public. The target audience will heavily affect the communicator's decisions on *what* will be said, *how* it will be said, *when* it will be said, *where* it will be said, and *who* will say it.

Determining the Communication Objectives

Once the target audience has been defined, the marketers must decide what response they seek. Of course, in many cases, they will seek a *purchase* response. But a purchase results from a long consumer decision-making process. The marketing communicator needs to know where the target audience now stands and to what stage it needs to be moved. The target audience may be in any of six **buyer-readiness stages**, the stages consumers normally pass through on their way to

Buyer-readiness stages
The stages consumers normally pass through on their way to purchase, including awareness, knowledge, liking, preference, conviction, and purchase.

Steps In Developing Effective Marketing Communication

1. Identify the target audience.

2. Determine a message.
- Find out which buyer-readiness stage the target audience is at and to what stage it needs to be moved.

3. Design a message.
- What to say (message content)
  i. Rational appeal
  ii. Emotional appeal
  iii. Moral appeal
- How to say it (message structure and format)

4. Choose the media through which to send the message.
- Personal communication channels
  i. Word of mouth
  ii. Buzz marketing
- Non-personal communication channels
  i. Major media
  ii Atmospheres
  iii. Events

5. Choose the message source.
- Use highly credible or recognizable sources to promote or recommend the product to the target audience

6. Collect feedback
- Research the effect on the target audience.
  i. Do they remember the message?
  ii. How many times did they see it?
  iii. What points do they recall?
  iv. How did they feel about the message?
  v. What are their past and present attitudes toward the product and company?
- Measure behavior resulting from the message
  i. How many people bought the product?
  ii How many people talked to others about it?
  iii. How many people visited the store?

FIGURE 14.4
Steps in developing effective marketing communication

making a purchase. These stages include *awareness*, *knowledge*, *liking*, *preference*, *conviction*, and *purchase* (see **Figure 14.5**).

The marketing communicator's target market may be totally unaware of the product, know only its name, or know only a few things about it. The communicator must first build *awareness* and *knowledge*. For example, when Jurong Point Shopping Centre in Singapore first introduced its promotion campaign, it used ads

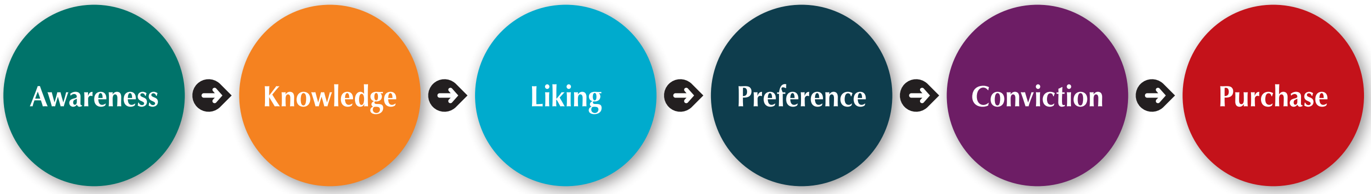


FIGURE 14.5
Buyer-readiness stages

and press releases to create awareness and curiosity. When the shoppers arrived, big posters at the entrances welcomed them with instructions to participate in the promotion campaign and more information about the shopping center.

Assuming target consumers *know* about the product, how do they *feel* about it? Once potential buyers knew about the shopping center, marketers wanted to move them through successively stronger stages of feelings toward the shopping center. These stages included *liking* (having an inclination to the center), *preference* (preferring Jurong Point to other shopping centers), and *conviction* (believing that Jurong Point is the best shopping place for them). Jurong Point marketers used a combination of the promotion mix tools to create positive feelings and conviction. Advertising built an emotional brand connection. Press releases and other public relations activities stressed the shopping center's provision of an innovative shopping experience. Buyers were continuously informed of shopping events so that they could get the most out of their shopping at Jurong Point. Finally, some members of the target market might be convinced about the product, but do not quite get around to making the *purchase*. The communicator must lead these targeted shoppers to take the final step. Actions might include offering special promotional prices, rebates, or premiums. Salespeople might call or write to selected customers, inviting them to visit the dealership for a special showing. In Jurong Point's case, potential shoppers were provided SMS coupons so that they could try some of the products or services before they decided to buy more. Of course, marketing communications alone cannot create positive feelings about a shopping center leading to purchases. The center itself must provide superior value for the shoppers. In fact, outstanding marketing communications can actually speed up the demise of a poor product or service. The more quickly potential buyers learn about the poor product or service, the more quickly they become aware of its faults. Thus, good marketing communication calls for "good deeds followed by good words."

It is common for shopping malls to use ads to inform consumers of ongoing promotions and events.

Designing a Message

Having defined the desired audience response, the communicator turns to developing an effective message. Ideally, the message should get *Attention*, hold *Interest*, arouse *Desire*, and obtain *Action* (a framework known as the *AIDA model*). In practice, few messages take the consumer all the way from awareness to purchase, but the AIDA framework suggests the desirable qualities of a good message.

When putting the message together, the marketing communicator must decide what to say (*message content*) and how to say it (*message structure* and *format*).

Message Content

The marketer has to figure out an appeal or theme that will produce the desired response. There are three types of appeals: rational, emotional, and moral. *Rational appeals* relate to the audience's self-interest. They show that the product will produce the desired benefits. Examples are messages showing a product's quality, economy, value, or performance. Thus, Panadol Nasal Clear runs a series of ads in Hong Kong, which inform customers about the pain reliever and why Panadol is the best choice. The ads promote "Runny nose cleared in a flash!"

Emotional appeals attempt to stir up either negative or positive emotions that can motivate purchase. Communicators may use positive emotional appeals such as love, pride, joy, harmony, and humor. For example in China, advocates claim that auspicious messages attract more attention and create more liking and belief in the sponsor. Jinliufu (金六福), a famous Chinese liquor, does not have a distilling process which is different from its competitors. However, it has been capable of capturing a huge market share because of its brand name. The name Jinliufu in Chinese, when pronounced, sounds like "Having every good luck today" which serves as an emotional appeal to ordinary Chinese folk. Since the Chinese have always had a strong desire for good fortune, Jinliufu successfully stirs their emotion to seek "the liquor of a good day," especially to be used during daily rituals and festivals when they pray for prosperous days to come.

Moral appeals are directed to the audience's sense of what is "right" and "proper." They are often used to urge people to support social causes, such as a cleaner environment, better race relations, equal rights for women, and aid to the disadvantaged. For example, an EarthShare ad urges environmental involvement by reminding people that "We live in the house we all build. Every decision we make has consequences … We choose the world we live in, so make the right choices …"

Message Structure

Marketers must also decide how to handle three message structure issues. The first is whether to draw a conclusion or leave it to the audience. Research suggests that in many cases, rather than drawing a conclusion, the advertiser is better off asking questions and letting buyers come to their own conclusions.

The second message structure issue is whether to present the strongest arguments first or last. Presenting them first gets strong attention but may lead to an anti-climactic ending.

The third message structure issue is whether to present a one-sided argument (mentioning only the product's strengths) or a two-sided argument (touting the product's strengths while also admitting its shortcomings). Usually, a one-sided argument is more effective in sales presentations—except when audiences are highly educated or likely to hear opposing claims, or when the communicator has a negative association to overcome. In this spirit, Heinz ran the message "Heinz Ketchup is slow good"

› **Two-sided messages** – Listerine ran the message "Listerine tastes bad twice a day," which actually enhanced its credibility.

and Listerine ran the message "Listerine tastes bad twice a day." In such cases, two-sided messages can enhance the advertiser's credibility and make buyers more resistant to competitor attacks.

Message Format

The marketing communicator also needs a strong *format* for the message. In a print ad, the communicator has to decide on the headline, copy, illustration, and color. To attract attention, advertisers can use novelty and contrast; eye-catching pictures and headlines; distinctive formats; message size and position; and color, shape, and movement. If the message is to be carried over the radio, the communicator has to choose words, sounds, and voices. The "sound" of an ad promoting banking services should be different from one promoting a smartphone.

If the message is to be carried on television or in person, then all these elements plus body language must be planned. Presenters plan every detail—their facial expressions, gestures, dress, posture, and hairstyles. If the message is carried on the product or its package, the communicator has to watch texture, scent, color, size, and shape. For example, age and other demographics affect the way in which consumers perceive and react to color.

Thus, in designing effective marketing communications, marketers must consider color and other seemingly unimportant details carefully.

❯ **Message format**–To attract attention and engage customers, marketers can use novelty and contrast, eye-catching headlines, and distinctive formats, as in this Benjamin Moore ad.

Choosing Communication Channels and Media

The communicator must now select *channels of communication*. There are two broad types of communication channels—*personal* and *non-personal*.

Personal Communication Channels

In **personal communication channels**, two or more people communicate directly with each other. They might communicate face to face, on the phone, through mail or email, or even through an Internet "chat." Personal communication channels are effective because they allow for personal addressing and feedback.

Some personal communication channels are controlled directly by the company. For example, company salespeople contact target buyers. But other personal communications about the product may reach buyers through channels not directly controlled by the company. These channels might include independent experts—consumer advocates, online buying guides, and others—making statements to buyers. Or they might be neighbors, friends, family members, and associates talking to target buyers. This last channel, known as **word-of-mouth influence**, has considerable effect in many product areas.

Personal influence carries great weight for products that are expensive, risky, or highly visible. It does not matter how loud or how often you tell consumers your "truth," few today are buying a big-ticket item before they know what existing users have to say about the product. This is a low-trust world. That is why "recommendation by a relative or friend" comes out on top in just about every survey of purchasing influences. One study found that more than 90 percent of customers trust recommendations from people they know and 70 percent trust consumer opinions posted online, whereas the trust in ads runs from a high of about 62 percent to less than 24 percent, depending on the medium. Customer reviews

Personal communication channels
Channels through which two or more people communicate directly with each other, including face to face, on the phone, through mail or email, or even through an Internet "chat."

Word-of-mouth influence
Personal communication about a product between target buyers and neighbors, friends, family members, and associates.

❯ Word-of-mouth influence has considerable effect in many areas as a personal communication channel.

❯ Amazon.com uses word-of-mouth influence with the help of simple customer reviews that appear with every product on each Web page.

Buzz marketing
Cultivating opinion leaders and getting them to spread information about a product or service to others in their communities.

Non-personal communication channels
Media that carry messages without personal contact or feedback, including major media, atmospheres, and events.

are also a major reason for Amazon's success in growing sales per customer. Who has not made an Amazon purchase based on another customer's review or the "Customers who bought this also bought …" section? And it explains what a survey found—96 percent of retailers find ratings and reviews to be an effective tactic in lifting online sales.[4]

Companies can take steps to put personal communication channels to work for them. For example, they can create *opinion leaders* for their brands—people whose opinions are sought by others—by supplying influencers with the product on attractive terms or by educating them so that they can inform others. **Buzz marketing** involves cultivating opinion leaders and getting them to spread information about a product or service to others in their communities.

Non-Personal Communication Channels

Non-personal communication channels are media that carry messages without personal contact or feedback. They include major media, atmospheres, and events. Major *media* include print media (newspapers, magazines, direct mail), broadcast media (radio, television), display media (billboards, signs, posters), and online media (email, Web sites, and online social and sharing networks). *Atmospheres* are designed environments that create or reinforce the buyer's leanings toward buying a product. Thus, lawyers' offices and banks are designed to communicate confidence and other qualities that might be valued by clients. *Events* are staged occurrences that communicate messages to target audiences. For example, public relations departments arrange press conferences, grand openings, shows and exhibits, public tours, and other events.

Non-personal communication affects buyers directly. In addition, using mass media often affects buyers indirectly by causing more personal communication. Communications first flow from television, magazines, and other mass media to opinion leaders and then from these opinion leaders to others. Thus, opinion leaders step between the mass media and their audiences and carry messages to people who are less exposed to media. This suggests that mass communicators should aim their messages directly at opinion leaders, letting them carry the message to others.

Interestingly, marketers often use non-personal communications channels to replace or stimulate personal communications by embedding consumer endorsements or word-of-mouth testimonials in their ads and other promotions.

Selecting the Message Source

In either personal or non-personal communication, the message's impact on the target audience is also affected by how the audience views the communicator. Messages delivered by highly credible sources are more persuasive. Thus, many food companies promote to doctors, dentists, and other health care providers to motivate these professionals to recommend their products to patients. And marketers hire celebrity endorsers—well-known athletes, actors, and even cartoon characters—to deliver their messages. Movie star Jackie Chan vouches for Visa and Hong Kong Tourist Association. Chinese actress Gong Li lends her image to cosmetic brand L'Oréal, Amitabh Bachchan for Parker pen, and Shahrukh Khan for Hyundai.

But companies must be careful when selecting celebrities to represent their brands. Picking the wrong spokesperson or endorser can result in embarrassment and a tarnished image. adidas experienced this when one half of popular Hong Kong singing duo Twins, Gillian Chung, appeared in erotic photos circulated on the Internet. Nike and Tag Hauer discontinued endorsing Tiger Woods after his scandalous marriage failure. More than ever, it's important to pick the right celebrity for the brand (see **Real Marketing 14.2**).

› **Marketers hire celebrities to deliver their messages** – Shahrukh Khan lends his image to Hyundai, while Jackie Chan vouches for everything from VISA credit card to Chinese frozen foods.

Collecting Feedback

After sending the message, the communicator must research its effect on the target audience. This involves asking the target audience members whether they remember the message, how many times they saw it, what points they recall, how they felt about the message, and their past and present attitudes toward the product and company. The communicator would also like to measure behavior resulting from the message—how many people bought a product, talked to others about it, or visited the store.

› After sending the message, the communicator must research its effect on the target audience by collecting feedback.

Feedback on marketing communications may suggest changes in the promotion program or in the product offer itself. For example, department store Isetan uses television and newspaper advertising to inform area consumers about its stores, services, and merchandising events. Suppose feedback research shows that 80 percent of all shoppers in an area recall seeing the store's ads and are aware of its merchandise and sales. Sixty percent of these aware shoppers have visited an Isetan store in the past month, but only 20 percent of those who visited were satisfied with the shopping experience. These results suggest that although the promotion is creating *awareness*, Isetan stores aren't giving consumers the *satisfaction* they expect. Therefore, Isetan needs to improve the shopping experience while staying with the successful communications program. In contrast, suppose research shows that only 40 percent of area consumers are aware of the store's merchandise and events, only 30 percent of those aware have shopped recently, but 80 percent of those who have shopped return soon to shop again. In this case, Isetan needs to strengthen its promotion program to take advantage of its power to create customer satisfaction.

Real Marketing 14.2

Celebrity Endorsers:
Finding the Right Celebrity for the Brand

Ever since Red Rock Cola hired baseball legend Babe Ruth to endorse its soft drink in the late 1930s, companies have been paying big bucks to have their products associated with big-name celebrities. Brands seek an endorser's "halo effect"—the positive association that surrounds a product after a popular celebrity has pitched it.

As evidence of the popularity of celebrities in today's marketing, check out Super Bowl advertising. Over the past few years, big-budget Super Bowl ads have showcased stars ranging from Kim Kardashian (Skechers) and Elton John (Pepsi) to Arnold Schwarzenegger (Anheuser-Busch), Scarlett Johansson (Soda Stream), and a host of others. In Asia, celebrity endorsements are popular as India and Hong Kong have a thriving movie business. Jay Chou endorses for ASUS laptops, while Amitabh Bachnan for Maggi.

Celebrity endorsements are big business, for both the brands and the endorsers. For example, Nike spends an estimated half- billion dollars a year to pay celebrities to hawk its goods. But the payoff appears to be well worth the price. For example, Nike's Jordan Brand subsidiary (Air Jordan currently sponsors 19 active NBA players) enjoys annual revenues topping $1 billion and reaps a 58 percent share of the U.S. basketball shoe market, outselling even parent company Nike, a distant number two with 34 percent. In turn, even though he hasn't played professional basketball in over a decade, Michael Jordan earns $80 million annually from endorsement deals with Nike (worth $60 million by itself), Gatorade, Hanes, and other big brands.

However, although linking up with the right celebrity can add substantial appeal to a brand, using celebrities doesn't guarantee success. For example, according to one study, ads with celebrities are on average 3 percent less effective than ads without them. "During last year's Super Bowl," says an analyst, "ads without celebrities performed 9.2 percent better than those with celebrities." In fact, "ads with animals performed 21 percent better than ads with celebrities." Moreover, celebrity partnerships can create difficulties. When a major celebrity deal turns sour, or when a celebrity falls from grace, it can tarnish rather than enhance a brand's image.

Despite the potential pitfalls, however, celebrity endorsements are bigger today than ever. By one estimate, celebrities now appear in roughly one-fifth of all ads. In fact, the age-old technique is moving into dynamic new areas, in line with the social media revolution. Beyond simply employing celebs as brand icons or ad spokespeople, many marketers are putting them squarely in the middle of consumers' social dialogue. For example, Twitter is at the center of a new celebrity endorsement revolution.

Nowhere was that more evident than at the Academy Awards. Then host Ellen DeGeneres used a Samsung Galaxy Note 3 phone to tweet out selfies to her 25 million followers (Samsung was a major sponsor of the Oscars for the fifth year in a row). The most famous moment, called by some the "best selfie ever," featured DeGeneres, Kevin Spacey, Angelina Jolie, Brad Pitt, Julia Roberts, Meryl Streep, Bradley Cooper, Channing Tatum, and Jennifer Lawrence. The tweet shattered President Obama's election-night photo record with 2.7 million re-tweets, crashing the Twitter network. Samsung sponsored 10 tweets from DeGeneres that night as well as donating $1.5 million each to two of Ellen's charities of choice. And on Ellen DeGeneres's talk show the next day, everyone in the audience received a brand new Samsung Galaxy Note 3.

Such sponsored tweets have become the latest celebrity endorsement rage as top Twitter personalities post brand-related plugs to their followers. Less popular celebrities such as Lance Bass get paid as little as $650 per sponsored tweet. But top stars like Kim Kardashian routinely pull in as much as $20,000 for quips like, "Pregnancy lips… @ EOS to the rescue! LOL," accompanied by a photo of her using EOS lip balm. At the other extreme, P&G struck a deal with Kevin Jonas for rights to announce news of the birth of the pop singer's first daughter, as well as distributing the first baby picture via the Dreft detergent Twitter feed and Facebook page.

Having celebrities tweet about a brand can add instant interest to the message. But many marketers question the effectiveness of this latest celebrity endorsement trend. For starters, only about 9.5 percent of U.S. adults even use Twitter, and only a fraction of those follow a given celebrity. And by itself, the brief, "drive-by" nature of the typical Twitter campaign isn't likely to build a long-term celebrity–brand relationship or have much brand-building impact. Still, as with many other promotional efforts today, marketers are working feverishly to make more effective use of celebrities in social media.

The success of celebrity endorsements seems to come down to matching the right celebrity with the right brand. Too often, endorsement deals come off to consumers as offhand paid commercial pairings of the celebrity and the brand. For example, a music video ad for Hot Pockets microwavable sandwiches featuring Snoop Dogg rapping to Kate Upton and Larry King left audiences mystified. But a Kardashian sister tweeting about cosmetic products is a no-brainer. And there's perhaps no better endorsement fit than professional athletes and the shoes they wear. After Lebron James won his second NBA title with the Miami Heat, sales of his signature Nike shoes rose by 50 percent.

The best use of celebrities requires that kind of authenticity. Thanks to success stories like Nike's, although the whos and hows might change to fit the shifting marketing communications environment, celebrity power will likely remain an important element in the marketing of many brands. "We live in a celebrity-crazed culture," concludes one analyst. "Advertisers will never abandon them."

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Celebrity endorsers– Academy Awards host Ellen DeGeneres used a Samsung Galaxy Note 3 phone to tweet out epic selfies to her 25 million followers. One was retweeted a record 2.7 million times, crashing the Twitter network.

Setting the Total Promotion Budget and Mix

We have looked at the steps in planning and sending communications to a target audience. But how does the company decide on the total *promotion budget* and its division among the major promotional tools to create the *promotion mix*? By what process does it blend the tools to create integrated marketing communications? We now look at these questions.

Setting the Total Promotion Budget

One of the hardest marketing decisions facing a company is how much to spend on promotion. John Wanamaker, the U.S. department store magnate, once said, "I know that half of my advertising is wasted, but I don't know which half. I spent $2 million for advertising, and I don't know if that is half enough or twice too much." Thus, it is not surprising that industries and companies vary widely in how much they spend on promotion.

How does a company decide on its promotion budget? We look at four common methods used to set the total budget for advertising: the *affordable method*, the *percentage-of-sales method*, the *competitive-parity method*, and the *objective-and-task method*.[5]

Affordable Method

Affordable method
Setting the promotion budget at the level which management thinks the company can afford.

Some companies use the **affordable method**: They set the promotion budget at the level they think the company can afford. Small businesses often use this method, reasoning that the company cannot spend more on advertising than it has. They start with total revenues, deduct operating expenses and capital outlays, and then devote some portion of the remaining funds to advertising.

Unfortunately, this method of setting budgets completely ignores the effects of promotion on sales. It tends to place promotion last among spending priorities, even in situations in which advertising is critical to the firm's success. It leads to an uncertain annual promotion budget, which makes long-range market planning difficult. Although the affordable method can result in overspending on advertising, it more often results in underspending.

Percentage-of-Sales Method

Percentage-of-sales method
Setting the promotion budget at a certain percentage of current or forecasted sales or as a percentage of the unit sales price.

Other companies use the **percentage-of-sales method**, setting their promotion budget at a certain percentage of current or forecasted sales. Or they budget a percentage of the unit sales price. The percentage-of-sales method has advantages. It is simple to use and helps management think about the relationships between promotion spending, selling price, and profit per unit.

Despite these claimed advantages, however, the percentage-of-sales method has little to justify it. It wrongly views sales as the *cause* of promotion rather than as the *result*. Although studies have found a positive correlation between promotional spending and brand strength, this relationship often turns out to be effect and cause, not cause and effect. Stronger brands with higher sales can afford the biggest ad budgets.

Thus, the percentage-of-sales budget is based on availability of funds rather than on opportunities. It may prevent the increased spending sometimes needed to turn around falling sales. Because the budget varies with year-to-year sales, long-range planning is difficult. Finally, the method does not provide any basis for choosing a *specific* percentage, except what has been done in the past or what competitors are doing.

Competitive-Parity Method

Still other companies use the **competitive-parity method**, setting their promotion budgets to match competitors' outlays. They monitor competitors' advertising or get industry promotion spending estimates from publications or trade associations, and then they set their budgets based on the industry average.

Two arguments support this method. First, competitors' budgets represent the collective wisdom of the industry. Second, spending what competitors spend helps prevent promotion wars. Unfortunately, neither argument is valid. There are no grounds for believing that the competition has a better idea of what a company should be spending on promotion than does the company itself. Companies differ greatly, and each has its own special promotion needs. Finally, there is no evidence that budgets based on competitive parity prevent promotion wars.

Competitive-parity method
Setting the promotion budget to match competitors' outlays.

Objective-and-Task Method

The most logical budget-setting method is the **objective-and-task method**, whereby the company sets its promotion budget based on what it wants to accomplish with promotion. This budgeting method entails (1) defining specific promotion objectives, (2) determining the tasks needed to achieve these objectives, and (3) estimating the costs of performing these tasks. The sum of these costs is the proposed promotion budget.

The advantage of the objective-and-task method is that it forces management to spell out its assumptions about the relationship between dollars spent and promotion results. But it is also the most difficult method to use. Often, it is hard to figure out which specific tasks will achieve stated objectives. For example, suppose Sony wants 95 percent awareness for its latest camcorder model during the six-month introductory period. What specific advertising messages and media schedules should Sony use to attain this objective? How much would these messages and media schedules cost? Sony management must consider such questions, even though they are hard to answer.

Objective-and-task method
Developing the promotion budget by
(1) defining specific objectives;
(2) determining the tasks that must be performed to achieve these objectives; and
(3) estimating the costs of performing these tasks.
The sum of these costs is the proposed promotion budget.

Shaping the Overall Promotion Mix

The concept of integrated marketing communications suggests that the company must blend the promotion tools carefully into a coordinated *promotion mix*. But how does the company determine what mix of promotion tools it will use? Companies within the same industry differ greatly in the design of their promotion mixes. For example, Mary Kay spends most of its promotion funds on personal selling and direct marketing, whereas SK-II spends heavily on consumer advertising.

The Nature of Each Promotion Tool

Each promotion tool has unique characteristics and costs. Marketers must understand these characteristics in shaping the promotion mix (see **Table 14.1**).

Advertising

Advertising can reach masses of geographically dispersed buyers at a low cost per exposure, and it enables the seller to repeat a message many times. For example, television advertising can reach huge audiences. An estimated 114 million Americans watched the 2016 Super Bowl and at least 34.4 million watched the last Academy Awards broadcast.

Beyond its reach, large-scale advertising says something positive about the seller's size, popularity, and success. Because of advertising's public nature, consumers tend to view advertised products as more legitimate. Advertising is also very expressive—it allows the company to dramatize its products through the artful use of visuals, print, sound, and color. On the one hand, advertising can be used to

TABLE 14.1 Nature of Each Promotion Tool

	Pluses	Minuses
Advertising	■ Can reach masses of geographically dispersed buyers at a low cost per exposure ■ Enables the seller to repeat a message many times ■ Consumers tend to view advertised products as more legitimate ■ Very expressive and allows the company to dramatize its products	■ Impersonal ■ One-way communication ■ Costly
Personal selling	■ Effective in building up buyers' preferences, convictions, and actions ■ Allows personal interaction ■ Allows all kinds of customer relationships to develop ■ Buyer usually feels a greater need to listen and respond	■ Requires a longer-term commitment ■ Most expensive promotion tool
Sales promotion	■ Attract consumer attention ■ Offer strong incentives to purchase ■ Can be used to dramatize product offers and to boost sagging sales ■ Invite and reward quick customer response	■ Effects are short-lived ■ Not as effective in building long-run brand preference and customer relationships
Public relations	■ Very believable ■ Can reach prospects who avoid salespeople and advertisements ■ Can dramatize a company or a product	
Direct marketing	■ Nonpublic ■ Immediate ■ Customized ■ Interactive ■ Well suited to highly targeted marketing efforts and building one-to-one customer relationships	

build up a long-term image for a product (such as Coca-Cola ads). On the other hand, advertising can trigger quick sales (as when a department store advertises weekend specials).

Advertising also has some shortcomings. Although it reaches many people quickly, advertising is impersonal and cannot be as directly persuasive as can company salespeople. For the most part, advertising can merely carry on a one-way communication with the audience, and the audience does not feel that it has to pay attention or respond. In addition, advertising can be very costly. Although some advertising forms, such as newspaper and radio advertising, can be done on smaller budgets, other forms, such as network TV advertising, require very large budgets.

Personal Selling

Personal selling is the most effective tool at certain stages of the buying process, particularly in building up buyers' preferences, convictions, and actions. It involves personal interaction between two or more people, so each person can observe the other's needs and characteristics and make quick adjustments. Personal selling also allows all kinds of customer relationships to spring up, ranging from matter-of-fact selling relationships to personal friendships. An effective salesperson keeps the customer's interests at heart to build a long-term relationship by solving customer problems. Finally, with personal selling, the buyer usually feels a greater need to listen and respond, even if the response is a polite "No, thank you."

These unique qualities come at a cost, however. A sales force requires a longer-term commitment than does advertising—advertising can be turned on and off, but sales force size is harder to change. Personal selling is also the company's most expensive promotion tool

Sales Promotion

Sales promotion includes a wide assortment of tools—coupons, contests, cents-off deals, premiums, and others—all of which have many unique qualities. They attract consumer attention, offer strong incentives to purchase, and can be used to dramatize product offers and to boost sagging sales. Sales promotions invite and reward quick response—whereas advertising says, "Buy our product," sales promotion says, "Buy it now." However, sales promotion effects are often short-lived and not as effective as advertising or personal selling in building long-run brand preference and customer relationships.

Public Relations

Public relations is very believable—news stories, features, sponsorships, and events seem more real and believable to readers than ads do. Public relations can also reach many prospects who avoid salespeople and ads—the message gets to the buyers as "news" rather than as a sales-directed communication. And, as with advertising, public relations can dramatize a company or product. Marketers tend to underuse public relations or to use it as an afterthought. Yet a well-thought-out public relations campaign used with other promotion mix elements can be very effective and economical.

Direct and Digital Marketing

Although there are many forms of direct and digital marketing—direct mail and catalogs, telephone marketing, online marketing, and others—they all share four distinctive characteristics. Direct marketing is *non-public*: The message is normally directed to a specific person. Direct marketing is *immediate* and *customized*: Messages can be prepared very quickly and can be tailored to appeal to specific consumers. Finally, direct marketing is *interactive*: It allows a dialog between the marketing team and the consumer, and messages can be altered depending on the consumer's response. Thus, direct marketing is well suited to highly targeted marketing efforts and to building one-to-one customer relationships.

Promotion Mix Strategies

Marketers can choose from two basic promotion mix strategies—*push* promotion or *pull* promotion. **Figure 14.6** contrasts the two strategies. The relative emphasis on the specific promotion tools differs for push and pull strategies. A **push strategy** involves "pushing" the product through marketing channels to final consumers. The producer directs its marketing activities (primarily personal selling and trade promotion) toward channel members to induce them to carry the product and to promote it to final consumers.

Using a **pull strategy**, the producer directs its marketing activities (primarily advertising and consumer promotion) toward final consumers to induce them to buy the product. If the pull strategy is effective, consumers will then demand the product from channel members, who will in turn demand it from producers. Thus, under a pull strategy, consumer demand "pulls" the product through the channels.

Some industrial goods companies use only push strategies; some direct-marketing companies use only pull strategies. However, most large companies use some combination of both. For example, Kraft uses mass-media advertising and consumer promotions to pull its products and a large sales force and trade promotions to push its products through the channels. In recent years, consumer goods companies have been decreasing the pull portions of their mixes in favor of more push. This has caused concern that they may be driving short-run sales at the expense of long-term brand equity.

Push strategy
A promotion strategy that calls for using the sales force and trade promotion to push the product through channels. The producer promotes the product to channel members to induce them to carry the product and to promote it to final consumers.

Pull strategy
A promotion strategy that calls for spending a lot on advertising and consumer promotion to induce final consumers to buy the product. If the pull strategy is effective, consumers will then demand the product from channel members, who will in turn demand it from producers.

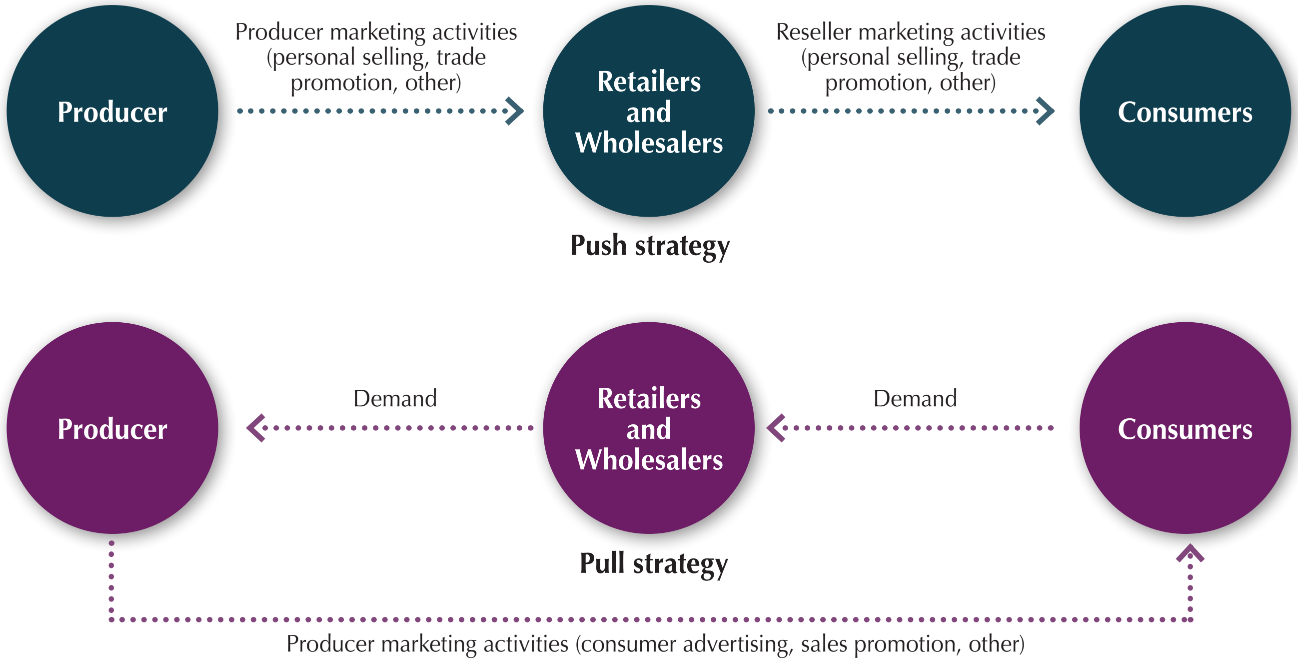


FIGURE 14.6
Push versus pull promotion strategy

Companies consider many factors when designing their promotion mix strategies, including *type of product/market* and the *product life-cycle stage*. For example, the importance of different promotion tools varies between consumer and business markets. Business-to-consumer (B2C) companies usually "pull" more, putting more of their funds into advertising, followed by sales promotion, personal selling, and then public relations. In contrast, business-to-business (B2B) marketers tend to "push" more, putting more of their funds into personal selling, followed by sales promotion, advertising, and public relations. In general, personal selling is used more heavily with expensive and risky goods and in markets with fewer and larger sellers.

The effects of different promotion tools also vary with stages of the product life cycle. In the introduction stage, advertising and public relations are good for producing high awareness, and sales promotion is useful in promoting early trial. Personal selling must be used to get the trade to carry the product. In the growth stage, advertising and public relations continue to be powerful influences, whereas sales promotion can be reduced because fewer incentives are needed. In the mature stage, sales promotion again becomes important relative to advertising. Buyers know the brands, and advertising is needed only to remind them of the product. In the decline stage, advertising is kept at a reminder level, public relations is dropped, and salespeople give the product only a little attention. Sales promotion, however, might continue to be strong.

Integrating the Promotion Mix

Having set the promotion budget and mix, the company must now take steps to see that all of the promotion mix elements are smoothly integrated. The various promotion elements should work together to carry the firm's unique brand messages and selling points. Integrating the promotion mix starts with customers. Whether it's advertising, personal selling, sales promotion, public relations, or digital and direct marketing, communications at each touch point must deliver consistent marketing content and positioning.

All of the firm's functions must cooperate to jointly plan the communications efforts. Some companies also include customers, suppliers, and other stakeholders at various stages of communications planning. While disjointed promotional activities can result in diluted marketing communications impact and confused positioning, an integrated promotion mix maximizes the combined effects of the promotional efforts.

Socially Responsible Marketing Communication

› By law, companies must avoid false claims and ads that have the capacity to deceive, even though no one may actually be deceived.

In shaping its promotion mix, a company must be aware of the large body of legal and ethical issues surrounding marketing communications. Most marketers work hard to communicate openly and honestly with consumers and resellers. Still, abuses may occur, and policymakers have developed a substantial body of laws and regulations to govern advertising, sales promotion, personal selling, and direct marketing activities. In this section, we discuss issues regarding advertising, sales promotion, and personal selling.

Advertising and Sales Promotion

By law, companies must avoid false or deceptive advertising. Advertisers must not make false claims, such as suggesting that a product cures something when it does not. They must avoid ads that have the capacity to deceive, even though no one may actually be deceived. An automobile cannot be advertised as getting 14 kilometers per liter unless it does so under typical conditions, and a diet bread cannot be advertised as having fewer calories simply because its slices are thinner.

Sellers must avoid bait-and-switch advertising that attracts buyers under false pretenses. For example, a large retailer advertised a sewing machine at $179. However, when consumers tried to buy the advertised machine, the seller downplayed its features, placed faulty machines on showroom floors, understated the machine's performance, and took other actions in an attempt to switch buyers to a more expensive machine. Such actions are both unethical and illegal.

Beyond simply avoiding legal pitfalls, such as deceptive or bait-and-switch advertising, companies can use advertising and other forms of promotion to encourage and promote socially responsible programs and actions. For example, Frito-Lay ran TV, print, and online ads promoting the new compostable packaging for its SunChips brand. "They're 100% compostable," said one print ad. "You eat the delicious chips. The earth eats the bag." Frito-Lay also used advertising to promote a program challenging consumers to create videos encouraging positive change in the world. Former U.S. Vice President

› **Promoting socially responsible actions** – Frito-Lay ran ads promoting the compostable packaging for its SunChips brand. It also promoted a program challenging consumers to create their own videos encouraging positive change in the world, which it ran on national TV in the United States.

Al Gore selected the winner, which Frito-Lay aired on national television during Earth Week.[6]

Personal Selling

A company's salespeople must follow the rules of "fair competition." Most states have enacted deceptive sales acts that spell out what is not allowed. For example, salespeople may not lie to consumers or mislead them about the advantages of buying a product. To avoid bait-and-switch practices, salespeople's statements must match advertising claims.

Much personal selling involves business-to-business trade. In selling to businesses, salespeople may not offer bribes to purchasing agents or to others who can influence a sale. They may not obtain or use technical or trade secrets of competitors through bribery or industrial espionage. Finally, salespeople must not disparage competitors or competing products by suggesting things that are untrue.[7]

› Salespeople must not lie to consumers or mislead them about the advantages of buying a product

Reviewing Objectives and Key Terms

In this chapter, you learned how companies use integrated marketing communications (IMC) to communicate customer value. Modern marketing calls for more than just creating customer value by developing a good product, pricing it attractively, and making it available to target customers. Companies also must clearly and persuasively *communicate* that value to current and prospective customers. To do this, they must blend five promotion mix tools, guided by a well-designed and implemented IMC strategy.

OBJECTIVE 1 Define the five promotion mix tools for communicating customer value. (pp. 450–451)

A company's total *promotion mix*—also called its *marketing communications mix*—consists of the specific blend of *advertising*, *personal selling*, *sales promotion*, *public relations*, and *direct marketing* tools that the company uses to persuasively communicate customer value and build customer relationships. Advertising includes any paid form of non-personal presentation and promotion of ideas, goods, or services by an identified sponsor. In contrast, public relations focuses on building good relations with the company's various publics by obtaining favorable, unpaid publicity.

Personal selling is any form of personal presentation by the firm's sales force for the purpose of making sales and building customer relationships. Firms use sales promotion to provide short-term incentives to encourage the purchase or sale of a product or service. Finally, firms seeking immediate response from targeted individual customers use non-personal direct marketing tools to communicate with customers and cultivate relationships with them.

OBJECTIVE 2 Discuss the changing communications landscape and the need for integrated marketing communications. (pp. 451–455)

Recent shifts toward targeted or one-to-one marketing, coupled with advances in information and communications technology, have had a dramatic impact on marketing communications. As marketing communicators adopt richer but more fragmented media and promotion mixes to reach their diverse markets, they risk creating a communications hodgepodge for consumers. To prevent this, more companies are adopting the concept of *integrated marketing communications* (*IMC*). Guided by an overall IMC strategy, the company works out the roles that the various promotional tools will play and the extent to which each will be used. It carefully coordinates the promotional activities and the timing of when major campaigns take place. Finally, to help implement its integrated marketing strategy, the company can appoint a marketing communications director who has overall responsibility for the company's communications efforts.

OBJECTIVE 3 Outline the communication process and the steps in developing effective marketing communications. (pp. 456–469)

The communication process involves nine elements: two major parties (sender, receiver), two communication tools (message, media), four communication functions (encoding, decoding, response, and feedback), and noise. To communicate effectively, marketers must understand how these elements combine to communicate value to target customers.

In preparing marketing communications, the communicator's first task is to *identify the target audience* and its characteristics. Next, the communicator has to determine the *communication objectives* and define the response sought, whether it be *awareness*, *knowledge*, *liking*, *preference*, *conviction*, or *purchase*. Then a *message* should be constructed with an effective content and structure. *Media* must be selected, both for personal and non-personal communication. The communicator must find highly credible sources to deliver messages. Finally, the communicator must collect *feedback* by watching how much of the market becomes aware, tries the product, and is satisfied in the process.

OBJECTIVE 4 Explain the methods for setting the promotion budget and factors that affect the design of the promotion mix. (pp. 469–478)

The company must determine how much to spend for promotion. The most popular approaches are to spend what the company can afford, use a percentage of sales, base promotion on competitors' spending, or base it on an analysis and costing of the communication objectives and tasks. The company has to divide the *promotion budget* among the major tools to create the *promotion mix*. Companies can pursue a *push* or a *pull* promotional strategy—or a combination of the two. The best specific blend of promotion tools depends on the type of product/market, the buyer's readiness stage, and the PLC stage. People at all levels of the organization must be aware of the many legal and ethical issues surrounding marketing communications. Companies must work hard and proactively at communicating openly, honestly, and agreeably with their customers and resellers.

Key Terms

OBJECTIVE 1
Promotion mix (or marketing communications mix) (p 449)
Advertising (p 449)
Sales promotion (p 449)
Public relations (PR) (p 449)
Personal selling (p 449)
Direct marketing (p 449)

OBJECTIVE 2
Integrated marketing communications (IMC) (p 451)

OBJECTIVE 3
Buyer-readiness stages (p 457)
Personal communication channels (p 461)
Word-of-mouth influence (p 461)
Buzz marketing (p 462)
Non-personal communication channels (p 462)

OBJECTIVE 4
Affordable method (p 466)
Percentage-of-sales method (p 466)
Competitive-parity method (p 467)
Objective-and-task method (p 467)
Push strategy (p 469)
Pull strategy (p 469)

Discussing the Concepts

1. List and briefly describe the five major promotion mix tools. (AACSB: Communication)
2. Define IMC and discuss how marketers implement it. (AACSB: Communication)
3. Name and briefly describe the nine elements of the communications process. Why do marketers need to understand these elements? (AACSB: Communication; Reflective Thinking)
4. Name and describe the six buyer-readiness stages. Discuss why it is important for a marketing communicator to know where the target audience stands and to what stage it needs to be moved. (AACSB: Communication)
5. Discuss the factors to consider with regard to message structure when designing a message. (AACSB: Communication)
6. Compare and contrast personal and non-personal communication channels. (AACSB: Communication)

Applying the Concepts

1. In your judgment who would be the best and the worst celebrity endorsers for each of these products/services: BMW, Dell, and the 2008 Beijing Olympics.
2. Describe the three types of appeals used in marketing communications messages and develop three different ads for the same brand of a product

of your choice, each using a different appeal. (AACSB: Communication; Reflective Thinking)

3. Discuss the two basic promotion mix strategies. Form a small group and recommend a promotion mix for a brand of peanut butter implementing primarily a push promotion strategy. Then recommend a promotion mix for the same brand implementing primarily a pull promotion strategy. Explain how your two recommendations differ.
(AACSB: Communication; Reflective Thinking)
4. Brands are now starring in movies, television shows, video games, and books. Select three different television programs and identify the brands shown or mentioned in an episode of each program. What product categories seem to be more prevalent? How were the brands presented? Write a report on what you find.
(AACSB: Communication; Reflective Thinking)

Focus on Technology

Small businesses account for 90 percent of all companies in the United States, and many do not have resources to spare for promoting their businesses. Newspaper, radio, and the yellow pages have been the mainstay mediums for local businesses, but they can be expensive. As a result, many businesses are turning to the Internet. One survey found that over one-half of small businesses using the Internet are creating or maintaining a social networking presence on sites such as Facebook, Twitter, and Foursquare. However, social networking media can be daunting to a small-business owner, so MerchantCircle offers a network that brings customers and local businesses together. Founded in 2005, MerchantCircle is now the largest online network of local business owners, with 1.3 million members. Consumers can go to the site to search for local businesses or ask questions and get input from any of MerchantCircle's business members. MerchantCircle business members can interact with one another to help grow their businesses.

1. Visit www.MerchantCircle.com/corporate and search for a jeweler in your city or some other city. What information is provided? Are any jewelers in your city members of MerchantCircle? Search for other products and services and describe the benefits this network provides to the consumer.
(AACSB: Communication; Use of IT; Reflective Thinking)
2. Explore the MerchantCircle Web site to learn the benefits and costs for local businesses. Write a brief report of what you learn. (AACSB: Communication; Use of IT; Reflective Thinking)

Focus on Ethics

A Unilever brand in Thailand ran into some problems with one of its promotion campaigns, the "Citra 3D Brightening Girls Search." Citra Pearly White UV Body Lotion is marketed as a skin-whitening product. Skin whitening is popular in many Asian countries because lighter skin color is associated with higher economic status. However, this belief is not created by marketers. Anthropologists point out that Asian cultures, and Thailand in particular, have long histories of associating darker skin tones with outdoor peasants and field workers, and lighter skin tones with higher socio-economic status. Citra's advertising was criticized because it showed two female students—one lighter-skinned than the other—and asked them what would make them "outstanding in uniform." The darker girl seemed confused and didn't answer, while the lighter girl answered with Citra's product slogan. After considerable social media outcry, Citra pulled the ad, but it did not stop a related scholarship competition. The competition offered a 100,000 baht ($3,200) prize for the college student best demonstrating "product efficacy"—that is, the whitest skin. The company claims its products help people feel good about themselves and enhances their self-esteem.

1. Since light skin and skin whitening are popular in Thailand, is it wrong for marketers to offer and promote products that encourage this belief and behavior? Explain why or why not.
(AACSB: Communication; Reflective Thinking; Ethical Reasoning)
2. Find other examples of marketers creating controversy by promoting culture-based products that could be viewed as inappropriate by others outside of that culture.
(AACSB: Communication; Reflective Thinking)

Marketing & the Economy

Miller Lite

For years, Miller Lite achieved tremendous success with its "Great Taste … Less Filling" campaign, which *Advertising Age* ranked as the eighth-best campaign in history. But when the recent joint venture MillerCoors took over the Miller Lite brand, it decided to focus exclusively on the "great taste" part, a positioning formula credited for 16 consecutive quarters of growth for competitor Coors Light. Unfortunately, the change in the Miller Lite branding strategy occurred as consumers began to count every penny and demand greater value in the face of new economic realities. In the new economic environment, the single-feature message didn't deliver. Miller Lite immediately began losing sales, posting its worst quarter in more than a decade. With more choices than ever in a beer market flooded with full-flavored crafts, imports, and microbrews, industry insiders have questioned MillerCoors' taste-only focus. To muddy the waters even further, MillerCoors halted the brand's regular pattern of price cuts and discounts. It has also increased the Miller Lite advertising budget and added some packaging innovations, such as a "Taste-Protector Cap" and a "Taste Activated Bottle." Andy England, chief marketing officer of MillerCoors, is convinced that the company has Miller Lite on the right track. Given that Miller Lite's sales have yet to turn around, observers are not convinced.

1. In your opinion, which factor has had the biggest impact on Miller Lite's sagging sales?
2. Is a single product benefit enough reason to buy in a weak economy?
3. If MillerCoors had retained Miller Lite's previous brand message, would it have suffered a sales decline?

Marketing by the Numbers

Using the percentage-of-sales method, an advertiser sets its budget at a certain percentage of current or forecasted sales. However, determining what percentage to use is not always clear. Many marketers look at industry averages and competitor spending for comparisons. Web sites and trade publications, such as *Advertising Age*, publish data about industry averages and advertising-to-sales ratios for top advertisers.

1. Using information regarding industry advertising-to-sales ratios (see http://company.news-record.com/advertising/advertising/ratio.html), recommend percentages of sales that advertisers in the following industries should use to set next year's advertising budget: a grocery store, a physician, a cosmetic brand, and malt beverages.
   (AACSB: Communication; Use of IT)
2. Explain why there is variation in the percentage of sales spent on advertising among the four industries in the previous question.
   (AACSB: Communication; Reflective Thinking)

Video Case

CP+B

Crispin Porter + Bogusky (Crispin) may not be the oldest advertising agency in the world. It isn't the biggest either. But it has been working overtime to prove that it is the most innovative firm at integrating marketing promotions. In fact, Crispin relies very little on the king of all advertising channels—broadcast TV. Instead, Crispin has worked miracles for companies such as Virgin Atlantic Airways, BMW's MINI Cooper, and Burger King by employing non-traditional campaigns on limited budgets.

Crispin attributes its success to the fact that it redefined what an advertisement is. Customer-appropriate messages, Crispin discovered, could be delivered in many different ways. So its realm of "ad space" includes things as obscure as the side of a mailbox or an oversized phone booth in an airport.

By communicating a message in many different ways, Crispin has developed a reputation for truly integrating marketing communications.

After viewing the video featuring Crispin, answer the following questions about advertising and promotions:

1. Alex Bogusky once said, "Anything and everything is an ad." What does this mean? How is Crispin demonstrating this mantra?
2. In what ways has Crispin differentiated itself from other advertising agencies?
3. Give some examples as to how Crispin balances strategy with creativity.

Company Case

Barbie Doll: Not All Girls Just Want to Have Fun

Mattel was facing dwindling sales of its Barbie doll in the United States. Competition from MGA Entertainment's Bratz dolls was also getting intensive. In 2009, Mattel decided that Barbie, its blonde long-legged doll, would have its first free-standing store in China. Costing $30 million, the store occupied 3,500 square meters in a six-storey pink building along Huaihailu, one of Shanghai's busiest and most expensive shopping streets. It was the second such store that Mattel opened, the first in Argentina, which experienced a tremendous success. Mattel hoped it would also strike gold in China.

Unfortunately, history did not repeat itself. Although China is one of the fastest growing economies in the world, and Shanghai is a bustling cosmopolitan city, the stand-alone Barbie store closed after two years of dismal sales. What happened?

Unlike the Argentine market that was already crazy over Barbie dolls—a Broadway-style Barbie musical was a success—Barbie was a relatively new concept in China. Despite the less sophisticated consumer knowledge about Barbie, Mattel decided to go head-on with a large store. It designed the Shanghai store to target both young girls and adult women. Mattel also wanted to revamp its image by offering a line of clothing by Patricia Fields, the Sex and the City designer, and sold Barbie brand cosmetics. In addition, the store had a spa, restaurant, and a Barbie Bar selling alcoholic drinks.

Did Mattel understand the Shanghainese market? Chinese women tend to like cutesy, girlish pink clothes. They did not like the sexy, skimpy designs by Fields. Even though urban Chinese women may appear Westernized in their outward appearances, it does not mean that they willingly embrace Western brands and concepts.

Pricing-wise, although Chinese women are especially optimistic and continued shopping during the 2008– 2009 global economic crisis, they seek value for money. They want to make the most out of their money by buying clothes that they can wear every day instead of skimpy outfits that they would wear occasionally. Compared to Zara and UNIQLO, two foreign clothing stores that have done well in Shanghai, Barbie's tops are perceived by Chinese women as simply T-shirts, and overpriced.

Design and price aside, the stand-alone store had an experiential aspect to it. The huge store did not just sell clothing and accessories; it also had a spa, a restaurant, and a cocktail bar. Such experience stores have worked in the United States, Japan, Singapore, and other markets, but this concept was too new for the Chinese market. Perhaps Chinese consumer shopping preferences are difficult to change. Chinese are used to going to specific streets or shopping areas for specific items. Mixing product categories is not a concept that they are ready to embrace. Further, the large variety of products and services rendered it impossible for Mattel to identify which items to localize, how much to localize, which would catch on with consumers, and how much consumers were willing to pay.

Mattel also did not understand the psyche behind the foot traffic along Huaihailu. Although it is a high-profile shopping street, foot traffic is unreliable. Most Chinese consumers go to malls, not city streets, for serious retail therapy. The busy road traffic and pollution in Shanghai have most Chinese preferring a one-stop shop indoor destination to a walk down the streets. They expect to shop, eat, and hit beauty salons in a single place with cool air-conditioning and a clean environment. Chinese shoppers do not like to go out of their way to a single store unless that store is particularly special. Thus, most retailers in China have stores located in high-traffic malls and department stores. Those that have stand-alone flagship stores do so knowing that the store is likely to be a showcase of their products, incurring marketing expenses rather than direct profit. It appears that Mattel learnt the hard way. It did not follow the proverb: "When in Rome, do as the Romans do." By not balancing between localization and globalization, Mattel found that its Barbie products did not satisfy Chinese consumer needs.

Questions for Discussion

1. Using psychological concepts, discuss what Mattel could have done to help Chinese consumers shop more at its stand-alone experiential store.
2. Chinese girls still clamor for Barbie dolls. What should Mattel do next to reach out to them?

Sources

Anil Gipta and Haiyan Wang, "Why Barbie Flopped in Shanghai," *BusinessWeek*, 21 April 2011; Shaun Rein, "Where Barbie Went Wrong in China," *Forbes*, 22 January 2010; "Shanghai Barbie Undressed: What's to Blame, Consumer Preferences or Strategy?" www .hotspotconsulting.com, 12 March 2011; Emily Rauhala, "In Shanghai, Barbie's Dream House Crumbles," www .globalspin.blogs.time.com, accessed on 8 March 2011.

Objective Outline

OBJECTIVE 1
Define the role of advertising in the promotion mix.
Advertising (483)

OBJECTIVE 2
Describe the major decisions involved in developing an advertising program.
Setting Advertising Objectives (484–485)
Setting the Advertising Budget (485–486)
Developing Advertising Strategy (486–493)
Evaluating Advertising Effectiveness and the Return on Advertising Investment (493–496)
Other Advertising Considerations (496–499)

OBJECTIVE 3
Define the role of public relations in the promotion mix.
Public Relations (499)
The Role and Impact of Public Relations (500–501)

OBJECTIVE 4
Explain how companies use public relations to communicate with their publics.
Major Public Relations Tools (501–502)

Chapter

15

Advertising and Public Relations

Previewing the Concepts

Now that we've looked at overall integrated marketing communications planning, let's dig more deeply into the specific marketing communications tools. In this chapter, we'll explore advertising and public relations. Advertising involves communicating the company's or brand's value proposition by using paid media to inform, persuade, and remind consumers about the brand. Public relations involves building good relations with various company publics—from consumers and the general public to media, investor, donor, and government publics. As with all the promotion mix tools, advertising and public relations must be blended into the overall integrated marketing communications program. In the next two chapters, we'll discuss the remaining promotion mix tools: personal selling, sales promotion, and direct marketing.

Let's start by examining Pepsi's "Live for Now" campaign.

Pepsi: Marketing Insight and "Live for Now"

Pepsi has long pitched itself to a now-generation of youthful cola drinkers, those young in mind and spirit. Almost 50 years ago, the brand invited consumers to "Come Alive! You're the Pepsi Generation!" Pepsi was different from Coca-Cola. "You've got a lot to live," went the jingle, "and Pepsi's got a lot to give."

But recently, PepsiCo's flagship cola brand began losing some of its youthful fizz. Partly to blame: U.S. soft drink consumption has been declining for the past eight years. But harder for PepsiCo to swallow, the Pepsi brand was losing ground in its century-long battle with archrival Coca-Cola, dropping from its perennial number-two position to number three, behind both Coca-Cola and Diet Coke. The embarrassing market-share slip sent a strong signal: The brand's positioning needed a pick-me-up.

To diagnose the issues behind the slide and find answers, PepsiCo launched an intense global consumer research effort. It set out to rediscover just what it is that makes Pepsi different from Coke. The company created a secretive, high-level research task force, located in an unmarked building in upstate New York. Charged with charting a new course for the Pepsi brand, the group embarked on an exhaustive nine-month worldwide search for new consumer insights.

The Pepsi task force left no stone unturned. It poured through reels of past Pepsi advertising. It fielded traditional focus groups, in-depth personal interviews, and lengthy quantitative surveys. Researchers and top executives participated in ethnographic studies, "moving in" with customers, observing them as they went about their daily lives, and immersing themselves in cultures

> Pepsi stands for creating culture rather than preserving it, and Pepsi customers would rather lead and exciting life than a happy one.

throughout North and South America, Asia, Europe, Africa, and Australia.

The Pepsi research team discovered that the longtime iconic brand had lost sight of what it stands for and the role it plays in customers' lives. Top brands such as Nike, Disney, Starbucks, and Coca-Cola have a clear sense of their meaning. But Pepsi no longer had clear positioning that defined the essence of the brand, drove marketing and innovation, and fueled consumer engagement. In only the past few years, for example, Pepsi's positioning had jumped around from "Every Pepsi Refreshes the World" to "Summer Time Is Pepsi Time" to "Where There's Pepsi, There's Music."

So what does Pepsi mean to consumers? How does it differ from rival Coca-Cola in terms of consumer perceptions and feelings? The research task force boiled its extensive findings down to two simple but powerful customer insights. Whereas Coke is timeless, Pepsi is timely. Whereas Coca-Cola drinkers seek happiness, Pepsi drinkers seek excitement. According to Brad Jakeman, Pepsi's president of global enjoyment and chief creative officer, Coca-Cola stands for moments of joy and happiness, and for protecting the culture and status quo. In contrast, Pepsi stands for creating culture rather than preserving it, and Pepsi customers would rather lead an exciting life than a happy one. While Coca-Cola means belonging, Pepsi embraces individuality. According to Jakeman, timeless-brands seem to want to have museums; however, he feels that Pepsi is not one of the brands that belongs in a museum.

Interestingly, such insights harken back to the old, youthful "choice of a new generation" positioning that built the Pepsi brand so powerfully decades ago. And despite its recent slide, Pepsi remains a formidable brand. Although it has never been the leading cola, Pepsi has always acted as if it were. According to Jakeman, Pepsi has done best when projecting the confidence and swagger of a leader, and Pepsi drinkers have always identified with that boldness. Looking forward, the key will be to regain that boldness and swagger. "This brand does not need to be reinvented," he asserts. "It needs to be reignited."

The "timely" versus "timeless" research insights—the idea of "capturing the excitement of now"—opened new creative doors for Pepsi. The result is a sweeping global marketing campaign called "Live for Now." Giving a kind of modern twist to the brand's classic "Pepsi Generation" positioning, the campaign provides a new rallying cry for the next generation of Pepsi drinkers. "Live for Now" is designed to shape culture, capture the excitement of the moment, and reestablish Pepsi's connection with entertainment and pop culture. To back the campaign, PepsiCo increased its marketing budget by 50 percent, putting Pepsi's promotional spending at levels close to those of Coca-Cola.

The campaign "Live for Now" burst onto the scene with an abundance of traditional and digital media. The campaign has partnered with a full roster of music and sports stars, linking the brand with some of today's most exciting celebrities. For example, the first ads featured singer/rapper Nicki Minaj, whose hit "Moment 4 Life" contained lyrics made in heaven for Pepsi "Live for Now" commercials and videos ("I wish that I could have this moment for life. 'Cuz in this moment I just feel so alive"). Pepsi also inked a deal with Beyoncé that has had her pitching Pepsi's new message on everything from commercials and social media videos to Pepsi cans and a Super Bowl halftime extravaganza.

At the heart of the campaign, the interactive "Pepsi Pulse" Web site—what one analyst calls "a company-curated dashboard of pop culture"—serves as a portal to Pepsi's world of entertainment, featuring pop-culture information, entertainment news, and original content. Pepsi has also forged a music-related partnership with Twitter, and its Mi Pepsi Web site and Facebook page cater to Latino lifestyles and culture, urging customers to "Vive Hoy." Every aspect of the "Live for Now" campaign puts customers in the middle of the action. For example, during Super Bowl XLVII, Pepsi commercials and the Pepsi-sponsored halftime show featured youthful consumers as participants. "It really begins with the insight that Pepsi consumers want to be active participants, not observers of life," says a Pepsi marketer.

Pepsi's extensive research also showed that Pepsi drinkers around the globe are remarkably similar, giving the "Live for Now" positioning worldwide appeal. For example, in India, Pepsi's consumer research revealed that the country's young people are among the most optimistic in the world but are impatient for the future to happen sooner. So Pepsi TV ads in India feature brand endorsers, such as cricket captain MS Dhoni, actress-turned-pop-singer Priyanka Chopra, and Bollywood actor Ranbir Kapoor overcoming moments of impatience, interspersed with images of young people doing exciting in-the-moment things. The "Live for Now" campaign tells young consumers that "there's nothing wrong with wanting something now," says a senior PepsiCo India marketer.

It's still too soon to tell how much "Live for Now" will reverse Pepsi's long-run fortunes, but initial sales and share results are encouraging. According to brand consultancy Interbrand—which last year included Pepsi as one of its top brands in terms of improved brand value—"Pepsi is making a comeback." It's clear that the folks at Pepsi have done their research homework. Based on what Pepsi's Jakeman describes as the "most-exhaustive and consumer-insights-led process" he's ever witnessed, the swagger is back at Pepsi. Backed by months and months of intensive consumer research, "Live for Now" is reenergizing the Pepsi brand, those who work on it, and those who drink it. According to one Pepsi bottler who cut his teeth in the industry back when the original "Pepsi Generation" campaign was in full stride, "Live for Now" is "bringing back the roots of what Pepsi is all about."[1]

Companies must do more than simply create customer value. They must also engage target customers and clearly and persuasively communicate that value to them. In this chapter, we take a closer look at two marketing communications tools: *advertising* and *public relations.*

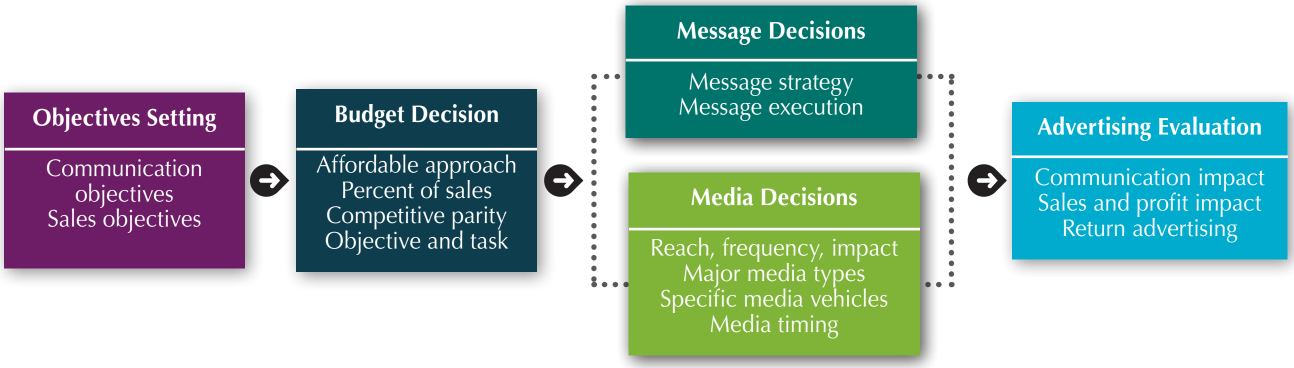
Advertising

Advertising has been around for a long time. Although advertising is used mostly by business firms, a wide range of not-for-profit organizations, professionals, and social agencies also use advertising to promote their causes to various target publics. Advertising is a good way to inform and persuade, whether the purpose is to sell Coca-Cola worldwide or to get consumers in a developing nation to use birth control.

Marketing management must make four important decisions when developing an advertising program (see **Figure 15.1**): *setting advertising objectives*, *setting the advertising budget*, *developing an advertising strategy* (*message decisions* and *media decisions*), and *evaluating advertising campaigns*.

Advertising
Any paid form of non-personal presentation and promotion of ideas, goods, or services by an identified sponsor.

FIGURE 15.1
Major advertising decisions



Setting Advertising Objectives

Advertising objective
A specific communication task to be accomplished with a specific target audience during a specific period of time.

The first step is to set *advertising objectives*. These objectives should be based on past decisions of the target market, positioning, and the marketing mix, which define the jobs that advertising must do in the total marketing program. The overall advertising objective is to help build customer relationships by communicating customer value. Here, we discuss specific advertising objectives.

An **advertising objective** is a specific communication *task* to be accomplished with a specific *target* audience during a specific period of *time*. Advertising objectives can be classified by primary purpose—whether the aim is to *inform*, *persuade*, or *remind*. **Table 15.1** lists examples of each of these specific objectives.

TABLE 15.1 Possible Advertising Objectives

Informative Advertising	
Communicating customer value Telling the market about a new product Explaining how the product works Suggesting new uses for a product	Informing the market of a price change Describing available services Correcting false impressions Building a brand and company image
Persuasive Advertising	
Building brand preference Encouraging switching to your brand Changing customer's perception of product attributes	Persuading customers to purchase now Persuading customers to receive a sales call Convincing customers to tell others about the brand
Reminder Advertising	
Maintaining customer relationships Reminding consumers that the product may be off-season	Reminding consumers where to buy the product Keeping the brand in customers' minds to be needed in the near future

Informative advertising is used heavily when introducing a new product category. In this case, the objective is to build primary demand. Thus, early producers of DVD players first had to inform consumers of the image quality and convenience benefits of the new product. *Persuasive advertising* becomes more important as competition increases. Here, the company's objective is to build selective demand. For example, once DVD players became established, Sony began trying to persuade consumers that *its* brand offered the best quality for their money.

Some persuasive advertising has become *comparative advertising*, in which a company directly or indirectly compares its brand with one or more other brands. Comparative advertising has been used by several products. Microsoft ran a campaign directly comparing its Bing search engine with Windows computers to Google's:

Microsoft's "Bing It On" campaign, directly challenged consumers to make side-by-side comparisons of its Bing search engine results with Google search results, without knowing which results were from which search engine. According to Microsoft, those making the comparison choose Bing over Google by a 2-to-1 margin. Microsoft next launched an aggressive "Scroogled" campaign, which attacked Google's search engine for "Scroogling" users by exploiting their personal data with invasive ads in Gmail to sharing data with app developers to maximize advertising profits. "For an honest search engine," said the Scroogled ads, "try Bing." Other Scroogled attack ads disparaged Google Chromebook laptops--inexpensive, stripped-down, Web-only machines that Google and partners like Acer, Samsung, and HP market as an alternative to full-fledged laptops. The hard-hitting Scroogled ads point out that Chromebooks won't run Microsoft Windows and other popular programs like Office, iTunes, and Photoshop and suggest that a Chromebook is "pretty much a brick" when not connected to the Internet. Although controversial, the Scroogled campaign has been effective in getting many consumers to look at Bing and other Microsoft products in a new light versus competitor Google.[2]

Comparative advertising: Microsoft's hard-hitting "Scroogled" campaign directly challenges competitor Google. "For an honest search engine, try Bing."

Reminder advertising is important for mature products—it helps to maintain customer relationships and keep consumers thinking about the product. Expensive Coca-Cola television ads primarily build and maintain the Coca-Cola brand relationship rather than informing or persuading customers to buy in the short run.

Advertising's goal is to move consumers through the buyer-readiness stages discussed in the previous chapter. Some advertising is designed to move people to immediate action. However, many of the other ads focus on building or strengthening long-term customer relationships. For example, a Nike television ad in which well-known athletes "just do it" never directly asks for a sale. Instead, the goal is to somehow change the way the customers think or feel about the brand.

Setting the Advertising Budget

After determining its advertising objectives, the company next sets its **advertising budget** for each product. Here are some specific factors that should be considered when setting the advertising budget.

Advertising budget
The dollars and other resources allocated to a product or company advertising program.

A brand's advertising budget often depends on its *stage in the product life cycle.* For example, new products typically need large advertising budgets to build awareness and to gain consumer trial. In contrast, mature brands usually require lower budgets as a ratio to sales. *Market share* also impacts the amount of advertising needed: Because building the market or taking market share from competitors requires larger advertising spending than does simply maintaining current share, low-share brands usually need more advertising spending as a percentage of sales. Also, brands in a market with many competitors and high advertising clutter must be advertised more heavily to be noticed above the noise in the market. Undifferentiated brands—those that closely resemble other brands in their product class (soft drinks, laundry detergents)—may require heavy advertising to set them apart. When the product differs greatly from competitors, advertising can be used to point out the differences to consumers.

No matter what method is used, setting the advertising budget is no easy task. How does a company know if it is spending the right amount? Some critics charge that large consumer packaged-goods firms tend to spend too much on advertising and business-to-business marketers generally underspend on advertising. They claim that, on the one hand, the large consumer companies use lots of image advertising without really knowing its effects. They overspend as a form of "insurance" against not spending enough. On the other hand, business advertisers tend to rely too heavily on their sales forces to bring in orders. They underestimate the power of company and product image in preselling to industrial customers. Thus, they do not spend enough on advertising to build customer awareness and knowledge.

Companies such as Coca-Cola and 3 Hong Kong, a leading network provider in Hong Kong, have built sophisticated statistical models to determine the relationship between promotional spending and brand sales and to help determine the "optimal investment" across various media. Still, because so many factors, some controllable and others not, affect advertising effectiveness, measuring the results of advertising spending remains an inexact science. In most cases, managers must rely on large doses of judgment along with more quantitative analysis when setting advertising budgets.[3]

Developing Advertising Strategy

Advertising strategy
The strategy by which the company accomplishes its advertising objectives. It consists of two major elements: creating advertising messages and selecting advertising media.

Advertising strategy consists of two major elements: creating advertising *messages* and selecting advertising *media* (see **Figure 15.2**).

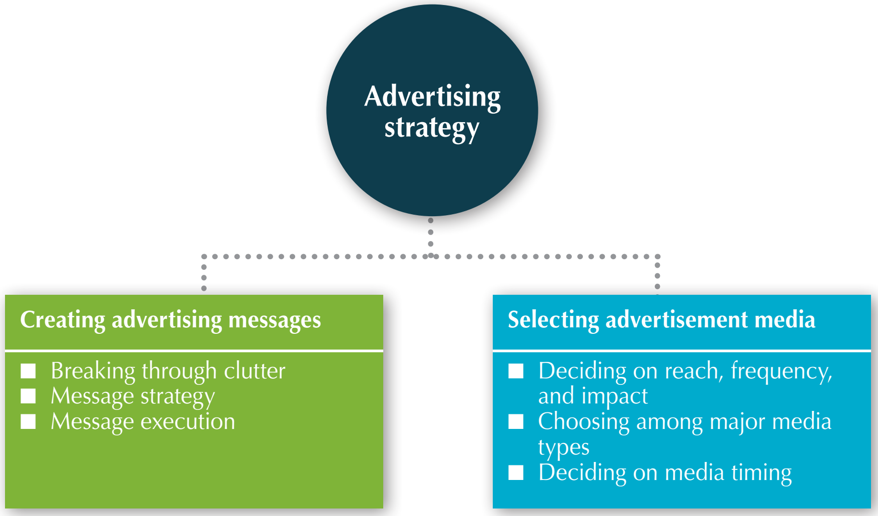


FIGURE 15.2
Developing advertising strategy

Some companies have long recognized the importance of tight media–creative partnerships. For example, Absolut has created a wonderful assortment of creative ads that are tightly targeted to the audiences of the media in which they appear. "Absolut Singapore" ads show a clean bottle with a white handkerchief to convey Singapore's clean city image. Largely as a result of its breakthrough advertising, Absolut is in many Asian consumers' "evoke set" of vodkas.

In its classic campaign, Absolut Vodka developed an assortment of creative ads targeted to the audiences of the media in which the ad was featured.

With increasing media costs, more-focused target marketing strategies, and the slew of online, mobile, and social media, the media-planning function has become more important. The decision about which media to use for an ad campaign may sometimes be more critical than the creative elements of the campaign. Thus, companies are focusing on a closer relationships between the messages and the media that deliver them (see **Real Marketing 15.1**).

Creating the Advertising Message

No matter how big the budget, advertising can succeed only if advertisements gain attention and communicate well. Good advertising messages are especially important in today's costly and cluttered advertising environment. Americans are exposed to a cumulative 5.3 trillion online ad impressions each year and a daily dose of 400 million tweets, 144,000 hours of uploaded YouTube video, and 4.75 billion pieces of shared content on Facebook.

Breaking Through the Clutter

If all this advertising clutter bothers some consumers, it also causes big problems for advertisers. Producing and showing TV ads are expensive.

Then, the ads are sandwiched in with a clutter of other commercials, announcements, and network promotions, totaling more than 20 minutes of non-program material per prime-time hour with commercial breaks coming every six minutes on average. Such clutter in television and other ad media has created an increasingly hostile advertising environment.

› Advertising clutter – Today's consumers can choose what they watch and don't watch. Increasingly, they are choosing not to watch ads.

Until recently, television viewers were pretty much a captive audience for advertisers. But today's digital wizardry has given consumers a rich new set of information and entertainment choices. With the growth in cable and satellite TV, the Internet, video streaming, smartphones, and tablets, today's viewers have many more options.

Digital technology also gives consumers the choice to *not* to watch ads. They "zap" commercials by fast-forwarding through recorded programs.

Thus, advertisers can no longer force-feed the same old cookie-cutter ad messages to captive consumers through traditional media. Just to gain and hold attention, today's advertising messages must be better planned, more imaginative, more entertaining, and more rewarding to consumers.

Merging Advertising and Entertainment

To break through the clutter, many marketers have merged advertising with entertainment. This merging takes one of two forms: advertainment or branded entertainment.

The aim of advertainment is to make ads so entertaining or useful that people want to watch them. Hence, the ads by Thailand's Smooth-E Babyface foam wash are entertaining as they tell interesting stories about the people who use the brand.

Another example of a successful advertainment is Dove's Campaign for Real Beauty. The ad compares images of women drawn by an FBI-trained sketch artist based on their self descriptions versus strangers' descriptions. Side-by-side comparisons show that the stranger-described images are more accurate and flattering. The tagline concludes, "You're more beautiful than you think." Although the video was not shown on TV, it drew more than 163 million global YouTube views within just two months.

Branded entertainment (or brand integrations) involves making the brand an inseparable part of some form of entertainment. The most common form is product placements—embedding brands as props within other programming. For example, in Captain America: The Winter Soldier, the superhero rides a Harley-Davidson. Or in The LEGO Movie, LEGO construction bricks were featured throughout the movie.

Real Marketing 15.1

Clinique's Integrated Promotion Program

Skin care and cosmetic products are necessities for ladies nowadays. People are more than willing to invest in these items to increase their charm. In the meantime, cosmetic companies strive for better ways to deliver product information to potential customers and arouse their interest in purchasing. Besides offering discounts, there are many other ways to trigger sales. Here is an example of how Clinique, one of the cosmetics and skin care companies, promotes its mascara through various channels.

With the key objectives to acquire new consumers and further grow the mascara franchise, Clinique adopted a series of promotion activities to achieve them.

Aggressive Print-Ad Campaign

Targeting the right group of female consumers, Clinique in Hong Kong advertised intensively on several selected magazines such as JCODe, elle, and Cosmogirl so as to create awareness among them.

Mascara Exchange Online Campaign

The purpose of this campaign was to invite customers to visit Clinique stores and get a mascara sample by returning used mascara. The exchange program was to encourage people to take the very first step to experience Clinique's new mascara.

The main channel of promoting the campaign was via the Internet. Pop-up ads were used on popular search engines like Yahoo! HK. On top of that, electronic direct mail was also sent out to subscribers of Beautyexchange, Jessica.com, elle.com, and She.com, so as to reach a larger group of target consumers.

Various activities were launched by Clinique, aimed at encouraging trials from potential female customers.

Campaigns like the Mascara Preview Party at Clinique counters and the Mascara Makeup Demo at road shows generated customers keen on trying out the new mascara.

"Big Eyes Competition"

Another promotion activity adopted by Clinique was the "Big Eyes Competition," meant to create launch excitement. This competition took place in road shows, with the use of Clinique counters in shopping malls. Clinique makeup artists helped customers put on the new mascara. Photos were taken later, and those with the biggest and brightest eyes as judged by Clinique were awarded prizes of HK$1,000 ($130) worth of Clinique coupons.

Different media, print ad and online, are used with differing objectives of creating awareness and prompting action through exchange and trial.

❯ Clinique products through various channels, such as road shows, help to promote sales.

Branded entertainment has also been used on the Web. "IKEA Home Tour" follows five IKEA employees on a yearlong road trip to provide families with home makeovers using merchandise from local IKEA stores. Consumers no longer want to just watch a 30-second commercial. They want to know who a company is, what it believes in, and what its personality is.

Ads by Thailand's Smooth-E Babyface foam facial wash are humorous and entertaining.

Message and Content Strategy

The first step in creating effective advertising messages is to plan a *message strategy*—to decide what general message will be communicated to consumers. The purpose of advertising is to get consumers to think about or react to the product or company in a certain way. People will react only if they believe that they will benefit from doing so. Thus, developing an effective message strategy begins with identifying customer *benefits* that can be used as advertising appeals. Ideally, an advertising message strategy will follow directly from the company's broader positioning and customer value strategies.

Message strategy statements tend to be plain, straightforward outlines of benefits and positioning points that the advertiser wants to stress. The advertiser must next develop a compelling **creative concept**—or *"big idea"*—that will bring the message strategy to life in a distinctive and memorable way. At this stage, simple message ideas become great ad campaigns. Usually, a copywriter and art director will team up to generate many creative concepts, hoping that one of these concepts will turn out to be the big idea. The creative concept may emerge as a visual, a phrase, or a combination of the two.

Creative concept
The compelling "big idea" that will bring the advertising message strategy to life in a distinctive and memorable way.

The creative concept will guide the choice of specific appeals to be used in an advertising campaign. *Advertising appeals* should have three characteristics: First, they should be *meaningful*, pointing out benefits that make the product more desirable or interesting to consumers. Second, appeals must be *believable*—consumers must believe that the product or service will deliver the promised benefits.

However, the most meaningful and believable benefits may not be the best ones to feature. Appeals should also be *distinctive*—they should tell how the product is better than competing brands. For example, the most meaningful benefit of owning a wristwatch is that it keeps accurate time, yet few watch ads feature this benefit. Instead, based on the distinctive benefits they offer, watch advertisers might select any of a number of advertising themes. For years, Timex has been the affordable watch that "Takes a lickin' and keeps on tickin'." In contrast, Swatch has featured style and fashion, whereas Rolex stresses luxury and status.

For years, Timex has marketed itself as the affordable watch that "Takes a lickin' and keeps on tickin'."

Message Execution

The advertiser now must turn the big idea into an actual ad execution that will capture the target market's attention and interest. The creative team must find the best approach, style, tone, words, and format for executing the message. Any message can be presented in different **execution styles**, such as the following:

- *Slice of life.* This style shows one or more "typical" people using the product in a normal setting. For example, two mothers at a picnic discuss the nutritional benefits of Skippy peanut butter.
- *Lifestyle.* This style shows how a product fits in with a particular lifestyle.
- *Fantasy.* This style creates a fantasy around the product or its use. For instance, many ads are built around dream themes.
- *Mood or image.* This style builds a mood or image around the product or service, such as beauty, love, or serenity. Few claims are made about the product except through suggestion. For example, ads for Singapore Airlines feature soft lighting and refined flight attendants pampering relaxed and happy customers.

Execution style
The approach, style, tone, words, and format used for executing an advertising message.

- *Musical.* This style shows people or cartoon characters singing about the product. For example, one of the most famous ads in history was a Coca-Cola ad built around the song "I'd Like to Teach the World to Sing."
- *Personality symbol.* This style creates a character that represents the product. The character might be *animated* (the jolly Green Giant, McDull the Pig [Hong Kong], Garfield the Cat) or *real* (the Marlboro man, Aaron Kwok—a Hong Kong celebrity in the Pepsi Coke ads).
- *Technical expertise.* This style shows the company's expertise in making the product. Thus, BBK (Bu Bu Gao, a top Chinese appliance manufacturer that makes DVD players) used Arnold Schwarzenegger in its ads to promote BBK's expertise as "Truth without Lies" (a concept borrowed from Schwarzenegger's movie *True Lies*).
- *Scientific evidence.* This style presents survey or scientific evidence that the brand is better or better liked than one or more other brands. For years, Crest has used scientific evidence to convince buyers that its toothpaste is better than other brands at fighting cavities.
- *Testimonial evidence or endorsement.* This style features a highly believable or likable source endorsing the product. It could be ordinary people saying how much they like a given product.

❯ Novel formats can help an advertisement stand out. In this Volkswagen ad, the illustration does most of the work in illustrating the car maker's parking assist feature.

The advertiser must also choose a *tone* for the ad. Procter & Gamble always uses a positive tone: Its ads say something very positive about its products. P&G usually avoids humor that might take attention away from the message. In contrast, many advertisers now use edgy humor to break through the commercial clutter.

The advertiser must use memorable and attention-getting *words* in the ad. For example, rather than claiming simply that "a BMW is a well-engineered automobile," BMW uses more creative and higher-impact phrasing: "The ultimate driving machine."

Finally, *format* elements make a difference in an ad's impact as well as in its cost. A small change in ad design can make a big difference in its effect. In a print ad, the *illustration* is the first thing the reader notices—it must be strong enough to draw attention. Next, the *headline* must effectively entice the right people to read the copy. Finally, the *copy*—the main block of text in the ad—must be simple but strong and convincing. Moreover, these three elements must effectively work *together* to persuasively present customer value.

Novel formats can help an ad stand out from the clutter. In a striking print ad from Volkswagen, the illustration does most of the work in catching relevant attention for the car maker's precision parking assist feature. It shows a porcupine "parked" in a tight space between goldfish in water-filled plastic bags. The small-print headline says only "Precision Parking. Park Assist by Volkswagen."

Consumer-Generated Content

With digital and social media technologies, companies are tapping consumers for marketing content, message ideas, and even actual ads and videos. When done well, user-generated content can produce new creative ideas and fresh perspectives on the brand from consumers who have experienced it. It incorporates the voice of the customer into brand messages, generates greater customer engagement, and gets customers talking and thinking about the brand and its value to them.

Advertising media
The vehicles through which advertising messages are delivered to their intended audiences.

Selecting Advertising Media

The major steps in **advertising media** selection are (1) deciding on *reach*, *frequency*, and *impact*; (2) choosing among major *media types*; (3) selecting specific *media vehicles*; and (4) deciding on *media timing*.

Deciding on Reach, Frequency, and Impact

To select media, the advertiser must decide on the reach and frequency needed to achieve advertising objectives. *Reach* is a measure of the *percentage* of people in the target market who are exposed to the ad campaign during a given period of time. For example, the advertiser might try to reach 70 percent of the target market during the first three months of the campaign. *Frequency* is a measure of how many *times* the average person in the target market is exposed to the message. For example, the advertiser might want an average exposure frequency of three.

But advertisers want to do more than just reach a given number of consumers a specific number of times. The advertiser also must decide on the desired *media impact*—the *qualitative value* of a message exposure through a given medium. For example, the same message in one newspaper (say, the *South China Morning Post*) may be more believable than in another (say, *Apple Daily*). For products that need to be demonstrated, messages on television may have more impact than messages on radio because television uses sight *and* sound. Products for which consumers provide input on design or features might be better promoted at a Web site than in a direct mailing.

❯ Advertisers should choose media that will engage consumers rather than simply reach them. A program may have a large audience, but if the ad is irrelevant to its audience, then it will not be as effective.

More generally, the advertiser wants to choose media that will *engage* consumers rather than simply reach them. For example, for television advertising, "how relevant a program is for its audience and where the ads are inserted are likely to be much more important than whether the program was a Nielsen winner" numbers-wise, says one expert. "This is about 'lean to' TV rather than 'lean back.'" Although research consultancy firm Nielsen measures levels of television *media engagement*, such measures are hard to come by for most media. "All the measurements we have now are media metrics: ratings, readership, listenership, click-through rates," says an executive of the Advertising Research Foundation, but engagement "happens inside the consumer, not inside the medium. What we need is a way to determine how the targeted prospect connected with, got engaged with, the brand idea. With engagement, you're on your way to a relationship …"[4]

Choosing Among Major Media Types

As summarized in **Table 15.2**, the major media types are television, newspapers, direct mail, magazines, radio, outdoor, and the Internet. Each medium has advantages and limitations. Media planners consider many factors when making their media choices. They want to choose media that will effectively and efficiently present the advertising message to target customers. Thus, they must consider each medium's impact, message effectiveness, and cost.

The mix of media must be re-examined regularly. For a long time, television and magazines dominated in the media mixes of national advertisers, with other media often neglected. However, the media mix appears to be shifting. As mass-media costs rise, audiences shrink, and exciting new digital media emerge, many advertisers are finding new ways to reach consumers. They are supplementing the traditional mass media with more specialized and highly targeted media that cost less, target more effectively, and engage consumers more fully.

For example, cable television and digital satellite systems are booming. Such systems allow narrow programming formats such as all sports, all news, nutrition,

TABLE 15.2 Profiles of Major Media Types

Medium	Advantages	Limitations
Television	Good mass-marketing coverage; low cost per exposure; combines sight, sound, and motion; appealing to the senses	High absolute costs; high clutter; fleeting exposure; less audience selectivity
Newspapers	Flexibility; timeliness; good local market coverage; broad acceptability; high believability	Short life; poor reproduction quality; small pass-along audience
Direct mail	High audience selectivity; flexibility; no ad competition within the same medium; allows personalization	Relatively high cost per exposure, "junk mail" image
Magazines	High geographic and demographic selectivity; credibility and prestige; high-quality reproduction; long life and good pass-along readership	Long ad purchase lead time; high cost; no guarantee of position
Radio	Good local acceptance; high geographic and demographic selectivity; low cost	Audio only; fleeting exposure; low attention ("the half-heard" medium); fragmented audiences
Outdoor	Flexibility; high repeat exposure; low cost; low message competition; good positional selectivity	Little audience selectivity; creative limitations
Digital and social media	High selectivity; low cost; immediacy; engagement capabilities	Potentially low impact; high audience control of content and exposure

Marketers have discovered a dazzling array of "alternative media."

arts, home improvement and gardening, cooking, travel, history, finance, and others that target select groups.

Advertisers can take advantage of such "narrowcasting" to "rifle in" on special market segments rather than use the "shotgun" approach offered by network broadcasting. Cable and satellite media seem to make good sense. But, increasingly, ads are popping up in far less likely places. In their efforts to find less costly and more highly targeted ways to reach consumers, advertisers have discovered a dazzling collection of "alternative media."

Another important trend affecting media selection is the rapid growth in the number of "media multitaskers," people who absorb more than one medium at a time: media planners need to take such media interactions into account when selecting the types of media they will use.

Selecting Specific Media Vehicles

The media planner now must choose the best *media vehicles*—specific media within each general media type. For example, television vehicles include Star TV and RoadShow (see **Real Marketing 15.2**). Magazine vehicles include *Time*, *Asia Inc.*, weekly TV guides, and *Cosmopolitan*.

Media planners must compute the cost per thousand persons reached by a vehicle. For example, if a full-page, four-color advertisement in the U.S. national edition of *Newsweek* costs $165,000 and *Newsweek's* readership is 1.5 million people, the cost of reaching each group of 1,000 persons is about $110. The same advertisement in *BusinessWeek* may cost only $115,600 but reach only 900,000 people—at a cost per thousand of about $128. The media planner ranks each magazine by cost per thousand and favors those magazines with the lower cost per thousand for reaching target consumers.[5]

The media planner must also consider the costs of producing ads for different media. Whereas newspaper ads may cost very little to produce, flashy television ads can be very costly.

In selecting specific media vehicles, the media planner must balance media costs against several media effectiveness factors. First, the planner should evaluate the media vehicle's *audience quality*. For a baby formula advertisement, for example, a family magazine would have a high exposure value; *Time* would have a low exposure value. Second, the media planner should consider *audience engagement*. Readers of *Vogue*, for example, typically pay more attention to ads than do *Newsweek* readers. Third, the planner should assess the vehicle's *editorial quality*—*Hong Kong Economic Journal* and *South China Morning Post* are more believable and prestigious than *The Sun*.

Deciding on Media Timing

The advertiser must also decide how to schedule the advertising over the course of a year. Suppose sales of a product peak in December and drop in March. The firm can vary its advertising to follow the seasonal pattern, to oppose the seasonal pattern, or to be the same all year. Most firms do some seasonal advertising. For example, products suitable for personal gifts are heavily advertised before major holidays such as Christmas, Easter, Valentine's Day, and Chinese New Year.

Finally, the advertiser must choose the pattern of the ads. *Continuity* means scheduling ads evenly within a given period. *Pulsing* means scheduling ads unevenly over a given time period. Thus, 52 ads could either be scheduled at one per week during the year or pulsed in several bursts. The idea behind pulsing is to advertise heavily for a short period to build awareness that carries over to the next advertising period. Those who favor pulsing feel that it can be used to achieve the same impact as a steady schedule but at a much lower cost. However, some media planners believe that although pulsing achieves maximal awareness, it sacrifices the depth of advertising communications.

Evaluating Advertising Effectiveness and Return on Advertising Investment

Measuring advertising effectiveness and **return on advertising investment** have become hot issues for most companies, especially in the tight economic environment. A less friendly economy "has obligated us all to pinch pennies all the more tightly and squeeze blood from a rock," says one advertising executive.[6] That leaves top management at many companies asking their marketing managers, "How do we know that we're spending the right amount on advertising?" and "What return are we getting on our advertising investment?"

Return on advertising investment
The net return on advertising investment divided by the costs of the advertising investment.

According to a survey by the Association of National Advertisers, measuring advertising's efficiency and effectiveness is the number one issue in the minds of today's advertisers. In the survey, 61.5 percent of respondents said that it is important that they define, measure, and take action in the area of advertising accountability.[7]

Real Marketing 15.2

RoadShow Media Ltd. in Hong Kong

The MMOB service is provided on most of the air-conditioned, double-deckered KMB, Citybus, and New World First Bus buses in Hong Kong. There are now over 4,700 RoadShow MMOB buses operating throughout Hong Kong Island, Kowloon, and the New Territories.

In 1982, H M Yau and his friends from Jardine Matheson Holding Ltd. established a media sales company in Hong Kong, which engaged in outdoor and indoor advertising, aiming at passengers onboard public transportation such as Star Ferry and Yaumati Ferry, and customers visiting supermarkets. Kiosks—wooden boxes installed with a TV and a VHS player—were placed at highly visible areas in piers and supermarkets, and continuously showed ads tailor-made for target customers as well as licensed short films for entertainment. After 18 months, the business was dissolved due to the lack of cooperation from ferry and supermarket owners.

Almost 20 years later in 2000, a company called RoadShow Media Ltd. was formed. Its establishment was a spin-off from a listed company in Hong Kong, Kowloon Motor Bus Co. (1933) Ltd. as a media sales company in Hong Kong, it provides RoadShow Multi-media On-board (MMOB) advertising services, which target passengers riding public transit vehicles in Hong Kong.

In fact, adopting the same concept from Mr Yau and his friends in the 1980s, the MMOB service is provided on most of the air-conditioned, double-deckered KMB, Citybus, and New World First Bus buses in Hong Kong. A sticker with the RoadShow logo is displayed on the windshield of these buses to help passengers identify them. MMOB buses operate on Hong Kong's largest bus fleet throughout Hong Kong Island, Kowloon, and the New Territories, reaching out to 2.6 million passengers daily.

On each bus, MMOB is delivered through a series of four LCD monitors which are vibration-resistant and strategically located and mounted. Each monitor offers a 160-degree viewing angle with quality sound evenly distributed to passengers through a four-channel stereo system. Passengers on the bus can watch and listen comfortably to the programs produced by RoadShow from every seat.

RoadShow's programs are specifically tailor-made with the interest of transit vehicle passengers in mind. Two kinds of content are blended in programs: entertainment and infotainment. The former includes music videos, movie trailers, drama series, animation, travelogues, while the latter includes civic affairs information, community service messages, crime prevention tips, gourmet guides, health education, business and economic reviews, and news. Each one-hour program is telecast 16 times per day.

Given the MMOB system, RoadShow is therefore able to offer a network of advertising sales platforms and sales expertise to help its clients market their products and services to a mass audience through an advertising medium that also delivers high-quality programs and infotainment to passengers every day.

RoadShow has several sales teams which help design ad sales packages to accommodate the respective needs of individual clients. Daily 12 20-second spots per bus, with 12 loops rotating within 16 telecast hours, cost HK$48,000 on smaller buses to $174,000 on larger buses.

RoadShow is not, however, without competitors. A similar form of "RoadShow" was adopted by East Rail Line of Hong Kong Railway Limited Company (MTR) just before the merger the Kowloon–Canton Railway Corporation (KCRC) and the Mass Transit Railway Company Limited (MTRCL) in 2008. On each train of the East Rail Line, compartments are equipped with LCD TV monitors which broadcast free news, Newsline Express by Cable TV Hong Kong as well as pop-up train information by the East Rail Line.

Source

Accessed May 2015 at http://www.roadshow.com.hk.

The East Rail Line of the Hong Kong Railway Limited Company (MTR), shown above, has adopted a similar form of "RoadShow."

❯ Sales and profits are affected by many factors, such as product features, price, and availability.

Advertisers should regularly evaluate two types of advertising results: the communication effects and the sales and profit effects. Measuring the *communication effects* of an ad or ad campaign tells whether the ads and media are communicating the ad message well. Individual ads can be tested before or after they are run. Before an ad is placed, the advertiser can show it to consumers, ask how they like it, and measure message recall or attitude changes resulting from it. After an ad is run, the advertiser can measure how the ad affected consumer recall or product awareness, knowledge, and preference. Pre- and post-evaluations of communication effects can be made for entire advertising campaigns as well.

Advertisers have gotten pretty good at measuring the communication effects of their ads and ad campaigns. However, *sales and profit* effects of advertising are often much harder to measure. For example, what sales and profits are produced by an ad campaign that increases brand awareness by 20 percent and brand preference by 10 percent? Sales and profits are affected by many factors besides advertising—such as product features, price, and availability.

One way to measure the sales and profit effects of advertising is to compare past sales and profits with past advertising expenditures. Another way is through experiments. For example, to test the effects of different advertising spending levels, Coca-Cola could vary the amount it spends on advertising in different market areas and measure the differences in the resulting sales and profit levels. More complex experiments could be designed to include other variables, such as differences in the ads or media used.

However, because so many factors, some controllable and others not, affect advertising effectiveness, measuring the results of advertising spending remains an inexact science. "Marketers are tracking all kinds of data and they still can't answer basic questions" about advertising accountability, says a marketing analyst, "because they don't have real models and metrics by which to make sense of it."[8] Thus, although the situation is improving as marketers seek more answers, managers often must rely on large doses of judgment along with quantitative analysis when assessing advertising performance (see **Real Marketing 15.3**).

Other Advertising Considerations

In developing advertising strategies and programs, the company must address two additional questions. First, how will the company organize its advertising function—who will perform which advertising tasks? Second, how will the company adapt its advertising strategies and programs to the complexities of international markets?

Organizing for Advertising

Different companies organize in different ways to handle advertising. In small companies, advertising might be handled by someone in the sales department. Large companies set up advertising departments whose job is to set the advertising budget, work with the ad agency, and handle other advertising not done by the agency. Most large companies use external advertising agencies because they offer several advantages.

Real Marketing 15.3

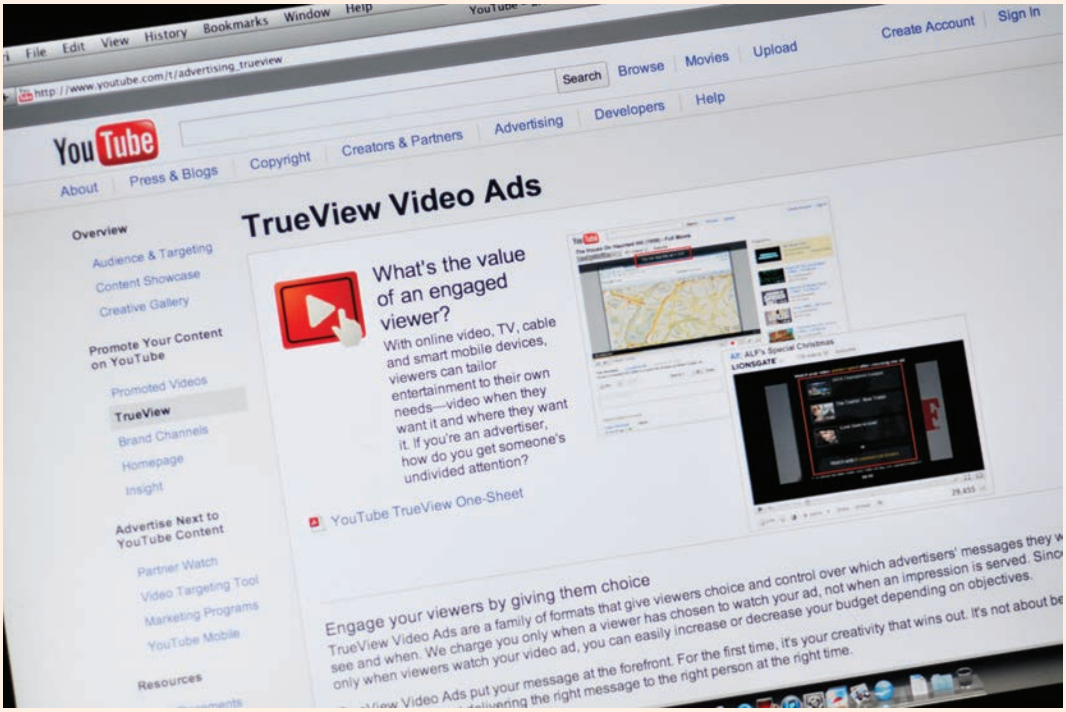
Can Pop-up Ads Achieve the Purpose of Promoting?

Nowadays, we see more and more pop-up ads when browsing the Internet. Pop-up ads are a common and, most of the time, cost-effective way for businesses to market their products or services to an enormous group of potential customers around the world.

Pop-up ads are an attractive marketing tool for companies for a number of reasons. First, they are often the first thing to "pop up" when we visit a Web site. Second, because everyone has to click on "exit" before they can actually proceed with normal viewing, the probability that viewers will click on the ad greatly increases. Third, potential customers are just one click away from a pool of information that TV and newspaper ads can hardly provide based on the limited time and space they respectively occupy.

But however good pop-up ads may be for companies, Web site viewers sometimes find them irritating. Three major issues are identified as follows:

1. In most cases, pop-up ads are not expected by viewers. Although they may indeed contain content of interest to viewers, pop-up ads are an interruption to what viewers are initially trying to access and read.
   These types of pop-up ads are simply annoying to Internet users; it alters ordinary methods of getting information from the Internet.
2. It is sometimes difficult to find the "exit" icon on an ad. Companies have every right to make this icon as tiny as they would like as long as it is there. Viewers who have a hard time finding it may eventually opt to either enter the Web site or close the browser altogether.
3. Even if viewers are able to locate the icon, they may still be directed towards that particular Web site. In such a case, the option to exit literally does not exist and entering is almost a must. Although this does not happen very often, it is the worst thing that can ever happen to a viewer encountering a pop-up ad.



❯ YouTube advises clients on how best to use ads to reach their target audience.

Advertising agency
A marketing services firm that assists companies in planning, preparing, implementing, and evaluating all or portions of their advertising programs.

How does an **advertising agency** work? Advertising agencies were started in the mid-to-late 1800s by salespeople and brokers who worked for the media and received a commission for selling advertising space to companies. As time passed, the salespeople began to help customers prepare their ads. Eventually, they formed agencies and grew closer to the advertisers than to the media. Today's agencies employ specialists who can often perform advertising tasks better than the company's own staff can. Agencies also bring an outside point of view to solving the company's problems, along with lots of experience from working with different clients and situations. So, today, even companies with strong advertising departments of their own use advertising agencies.

Ad agencies employ specialists such as art directors who can often perform advertising tasks better than the company's own staff can. They also bring an outside view to solving the company's problems.

Some ad agencies are huge—the largest U.S. agency, McCann Erickson Worldwide, has a worldwide annual net revenue of more than $7.6 billion. In recent years, many agencies have grown by gobbling up other agencies, thus creating huge agency holding companies. The largest of these agency "megagroups," WPP Group, includes several large advertising, public relations, and promotion agencies with combined worldwide revenues of $12.2 billion.[9] Most large advertising agencies have the staff and resources to handle all phases of an advertising campaign for their clients, from creating a marketing plan to developing ad campaigns and preparing, placing, and evaluating ads.

International Advertising Decisions

International advertisers face many complexities not encountered by domestic advertisers. The most basic issue concerns the degree to which global advertising should be adapted to the unique characteristics of various country markets. Some large advertisers have attempted to support their global brands with highly standardized worldwide advertising, with campaigns that work as well in Bangkok as they do in Taipei. For example, Coca-Cola pulls advertising together for its flagship brand under the theme, "Open Happiness" and has localized "Share a Coke" campaign under the global theme of bonding.

Under the global theme of bonding by sharing a Coke with someone, Coca-Cola adapts to local needs by having local expressions such as *Shuai Ge* ("good looking young man"), Auntie (a respectful greeting to a senior lady), and *Bae* (term of endearment) in Singapore.

Standardization produces many benefits—lower advertising costs, greater global advertising coordination, and a more consistent worldwide image. But it also has drawbacks. Most importantly, it ignores the fact that country markets differ greatly in their cultures, demographics, and economic conditions. Thus, most international advertisers "think globally but act locally." They develop global advertising *strategies* that make their worldwide advertising efforts more efficient and consistent. Then they adapt their advertising *programs* to make them more responsive to consumer needs and expectations within local markets. For example, Coke's "Share a Coke" campaign allows for local names and phrases to be used so that consumers can identify better with the brand.

Global advertisers face several special problems. For instance, advertising media costs and availability differ vastly from country to country. Countries also differ in the extent to which they regulate advertising practices. Many countries have extensive systems of laws restricting how much a company can spend on advertising, the media used, the nature of advertising claims, and other aspects of the advertising program. Such restrictions often require advertisers to adapt their campaigns from country to country.

For example, alcoholic products cannot be advertised in India or in Muslim countries. In many countries, Sweden and Norway, for example, food ads are banned from kids' TV. To play it safe, McDonald's advertises itself as a family restaurant in Sweden. Comparative ads, while acceptable and even common in the United States and Canada, are less commonly used in the United Kingdom, unacceptable in Japan, and illegal in India and Brazil. China bans sending email for advertising purposes to people without their permission, and all advertising email that is sent must be titled "advertisement."

China also has restrictive censorship rules for TV and radio advertising; for example, the words *the best* are banned, as are ads that "violate social customs" or present women in "improper ways." Development of the advertising industry has encountered numerous stumbling blocks.

McDonald's once avoided government sanctions there by publicly apologizing for an ad that crossed cultural norms by showing a customer begging for a discount. Similarly, Coca-Cola's Indian subsidiary was forced to end a promotion that offered prizes, such as a trip to Hollywood, because it violated India's established trade practices by encouraging customers to buy in order to "gamble."[10]

Thus, although advertisers may develop global strategies to guide their overall advertising efforts, specific advertising programs must usually be adapted to meet local cultures and customs, media characteristics, and advertising regulations.

Public Relations

Another major mass-promotion tool is **public relations (PR)**—building good relationships with the company's various publics by obtaining favorable publicity, building a good corporate image, and handling or diffusing unfavorable rumors, stories, and events. Public relations departments may perform any or all of the following functions:[11]

- *Press relations or press agency.* Creating and placing newsworthy information in the news media to attract attention to a person, product, or service.
- *Product publicity.* Publicizing specific products.
- *Public affairs.* Building and maintaining national or local community relations.
- *Lobbying.* Building and maintaining relations with legislators and government officials to influence legislation and regulation.
- *Investor relations.* Maintaining relationships with shareholders and others in the financial community.
- *Development.* Public relations with donors or members of non-profit organizaions to gain financial or volunteer support.

Public relations (PR)
Building good relations with the company's various publics by obtaining favorable publicity, building a good corporate image, and handling or heading off unfavorable rumors, stories, and events.

Public relations is used to promote products, people, places, ideas, activities, organizations, and even nations. Companies use public relations to build good relationships with consumers, investors, the media, and their communities. Trade associations have used public relations to rebuild interest in declining commodities such as eggs, apples, milk, and potatoes. Johnson & Johnson's masterly use of public relations played a major role in saving Tylenol from extinction after its product-tampering scare. Nations have used public relations to attract more tourists, foreign investment, and international support.

The Role and Impact of Public Relations

Public relations can have a strong impact on public awareness at a much lower cost than advertising can. The company does not pay for the space or time in the media. Rather, it pays for a staff to develop and circulate information and to manage events. If the company develops an interesting story or event, it could be picked up by several different media, having the same effect as advertising that would cost millions of dollars. And it would have more credibility than advertising.

Public relations results can sometimes be spectacular. Apple's iPad was launched with hardly any advertising but with PR effort. Apple built buzz months in advance of the launch by distributing iPads for early reviews, feeding the offline and online press with tempting tidbits, and offering fans an early online peek at iPad apps that would be made available. Here's how a white liquor company, Swellfun, used public relations to turn a liquor introduction into a national event, all on a very small budget:

Chengdu Swellfun Co., Ltd. – Located in a major historical and cultural site in Chengdu is China's oldest distillery, Swellfun.

Different from other famous liquor distilleries such as Maotai, Swellfun's success is attributable to the wise use of PR hype which turned it into a famous and prestigious brand in the liquor market.

On establishing Chengdu Swellfun Co. Ltd. in 2000, a 600-year-old underground distillery for white liquor was discovered when renovating the old distillery in the Kamkuang district in Chengdu. Before the site was officially confirmed by the government as an ancient site to be protected, Swellfun announced the discovery and released information about the site to the public. It claimed to be "the number one site for Chinese white liquor," and "the living relic" of the white liquor industry. This created a huge sales response from the public.

Swellfun understood that to sustain its competitive advantages, it needed to do more than just talk. After the company approached government offices at various levels, the site was declared:

- a major site under Municipal and Provincial protections
- one of the five Major Historical and Cultural Sites under State Protection, and
- one of the top 10 Archaeological Discoveries.

Domestically, Swellfun was named a "Famous Historical and Cultural Liquor of China" by the China Food Industry Association, and "The Number One Liquor Distillery Site in China." Internationally, the site was listed as "The Oldest Distillery Site" in China by Shanghai Guinness Grand World in May 2001.

Along the same lines, Swellfun's package design also won the package design award at the Mobius Advertising Awards. Not only was it the first Chinese product to receive such an honor, indeed it was the first time any Asian product package had received the prestigious award. "Blending both traditional and modern designs, Swellfun's liquor package exhibits a high level of elegance, dignity, and mystery of the oriental culture," said J. W. Anderson, founder and chairman of the Mobius awards.[12]

Despite its potential strengths, public relations is sometimes described as a marketing stepchild because of its often limited and scattered use. The PR staff is so busy dealing with various publics—stockholders, employees, legislators, the press—that PR programs to support product marketing objectives may be ignored. Marketing managers and PR practitioners do not always speak the same language. Many PR practitioners see their job as simply to communicate. In contrast, marketing managers tend to be much more interested in how advertising and public relations affect brand building, sales and profits, and customer relationships.

This situation is changing, however. Although public relations still captures only a small portion of the overall marketing budgets of most firms, it is playing an increasingly important brand-building role. Public relations can be a powerful brand-building tool. Especially in this digital era, the lines between advertising and PR are becoming more blurred. For example, are brand Web sites, blogs, brand videos, and social media activities advertising or PR efforts? All are both. Ans as the use of earned and shared digital content grows rapidly, PR may play a bigger role in brand content management. More than any department, PR has always been responsible for creating relevant marketing content that draws consumers to a brand rather than pushing messages out. "Knowing where influence and conversations are to be found is PR's stock in trade," says one expert. "PR pros are an organization's master storytellers. In a word, they *do* content."[13] The point is that PR should work hand in hand with advertising within an integrated marketing communications program to help customer engagement and relationships.

Although the book created much controversy, and most advertisers wouldn't agree with the part of the title that says "fall of advertising," the general point made is a good one. Advertising and public relations should work hand in hand to build and maintain brands.

Major Public Relations Tools

Public relations uses several tools (see **Figure 15.3**). One of the major tools is *news*. PR professionals find or create favorable news about the company and its products or people. Sometimes news stories occur naturally, and sometimes the PR person can suggest events or activities that would create news. Another common PR tool is *special events*, ranging from news conferences and speeches, brand tours, and sponsorships designed to reach and interest target publics. Public relations people also prepare *written materials* to reach and influence their target markets. These materials include annual reports, brochures, articles, and company newsletters and magazines. *Audiovisual materials* such as online videos are being used increasingly as communication tools. *Corporate identity materials* can also help create a corporate identity that the public immediately recognizes. Logos, stationery, brochures, signs, business forms, business cards, buildings, uniforms, and company cars and trucks all become marketing tools when they are attractive, distinctive, and memorable. Finally, companies can improve public goodwill be contributing money and time to *public service activities*.

PR Tools

- News
- Special events
- Written materials
- Corporate identity
- Public service activities
- Audiovisual materials

FIGURE 15.3
Major public relations tools

The Web and social media are also important PR channels. Web sites, blogs, and social media such as YouTube, Facebook, and Twitter are providing new ways to reach and engage people.

As with other promotional tools, in considering when and how to use product public relations, management should set PR objectives, choose the PR messages and vehicles, implement the PR plan, and evaluate the results. The firm's PR should be blended smoothly with other promotion activities within the company's overall integrated marketing communications effort.

Another common PR tool is *special events*, ranging from news conferences, press tours, grand openings, and sponsorships designed to reach and interest target publics.

Public relations people also prepare *written materials* to reach and influence their target markets. These materials include annual reports, brochures, articles, and company newsletters and magazines. *Audiovisual materials*, such as online videos are being used increasingly as communication tools. *Corporate identity materials* can also help create a corporate identity that the public immediately recognizes. Logos, stationery, brochures, signs, business forms, business cards, buildings, uniforms, and company cars and trucks—all become marketing tools when they are attractive, distinctive, and memorable. Companies can improve public goodwill by contributing money and time to *public service activities*.

The Web and social media are also important PR channels. Web sites, blogs, and social media such as YouTube, Facebook, and Twitter are providing new ways to reach and engage people.

As with other promotional tools, in considering when and how to use product public relations, management should set PR objectives, choose the PR messages and vehicles, implement the PR plan, and evaluate the results. The firm's PR should be blended smoothly with other promotion activities within the company's overall integrated marketing communications effort.

Reviewing Objectives and Key Terms

Companies must do more than make good products; they have to inform consumers about product benefits and carefully position products in consumers' minds. To do this, they must master *advertising* and *public relations*.

OBJECTIVE 1 Define the role of advertising in the promotion mix. (p. 483)

Advertising—the use of paid media by a seller to inform, persuade, and remind buyers about its products or its organization—is an important promotion tool for communicating the value that marketers create for their customers. American marketers spend more than $163 billion each year on advertising, and worldwide spending exceeds $450 billion. Advertising takes many forms and has many uses. Although advertising is used mostly by business firms, a wide range of not-for-profit organizations, professionals, and social agencies also employ advertising to promote their causes to various target publics. *Public relations*—gaining favorable publicity and creating a favorable company image—is the least used of the major promotion tools, although it has great potential for building consumer awareness and preference.

OBJECTIVE 2 Describe the major decisions involved in developing an advertising program. (pp. 484–499)

Advertising decision making involves making decisions about the advertising objectives, budget, message, media and, finally, the evaluation of results. Advertisers should set clear target, task, and timing *objectives*, whether the aim is to inform, persuade, or remind buyers. Advertising's goal is to move consumers through the buyer-readiness stages discussed in Chapter 14. Some advertising is designed to move people to immediate action. However, many of the ads you see today focus on building or strengthening long-term customer relationships. The advertising *budget* depends on many factors. No matter what method is used, setting the advertising budget is no easy task.

Advertising strategy consists of two major elements: creating advertising *messages* and selecting advertising *media*. The *message decision* calls for planning a message strategy and executing it effectively. Good messages are especially important in today's costly and cluttered advertising environment. Just to gain and hold attention, today's messages must be better planned, more imaginative, more entertaining, and more rewarding to consumers. In fact, many marketers are now subscribing to a new merging of advertising and entertainment, dubbed *Madison & Vine*. The *media decision* involves defining reach, frequency, and impact goals; choosing major media types; selecting media vehicles; and deciding on media timing. Message and media decisions must be closely coordinated for maximum campaign effectiveness.

Finally, *evaluation* calls for evaluating the communication and sales effects of advertising before, during, and after ads are placed. Advertising accountability has become a hot issue for most companies. Increasingly, top management is asking: "What return are we getting on our advertising investment?" and "How do we know that we're spending the right amount?" Other important advertising issues involve *organizing* for advertising and dealing with the complexities of international advertising.

OBJECTIVE 3 Define the role of public relations in the promotion mix. (pp. 499–501)

Public relations—gaining favorable publicity and creating a favorable company image—is the least used of the major promotion tools, although it has great potential for building consumer awareness and preference. PR is used to promote products, people, places, ideas, activities, organizations, and even nations. Companies use PR to build good relationships with consumers, investors, the media, and their communities. PR can have a strong impact on public awareness at a much lower cost than advertising can, and PR results can sometimes be spectacular. Although PR still captures only a small portion of the overall marketing budgets of most firms, PR is playing an increasingly important brand-building role. In the digital age, the lines between advertising and PR are becoming more and more blurred.

OBJECTIVE 4 Explain how companies use public relations to communicate with their publics. (pp. 501–502)
Companies use public relations to communicate with their publics by setting PR objectives, choosing PR messages and vehicles, implementing the PR plan, and evaluating PR results. To accomplish these goals, PR professionals use several tools, such as *news*, *speeches*, and *special events*. They also prepare *written*, *audiovisual*, and *corporate identity materials* and contribute money and time to *public service activities*. The Web has also become an increasingly important PR channel, as Web sites, blogs, and social networks are providing interesting new ways to reach more people.

Key Terms

OBJECTIVE 1
Advertising (p 483)

OBJECTIVE 2
Advertising objective (p 484)
Advertising budget (p 485)
Advertising strategy (p 486)
Creative concept (p 489)
Execution style (p 489)
Advertising media (p 490)
Return on advertising investment (p 493)
Advertising agency (p 498)

OBJECTIVE 3
Public relations (PR) (p 499)

Discussing the Concepts

1. List the primary types of advertising objectives and discuss the kinds of advertising used to achieve each type. (AACSB: Communication)
2. Why is it important that the advertising media and creative departments work closely together? (AACSB: Communication)
3. Name and describe five of the many execution styles advertisers use when developing ads. For each execution style, describe a television commercial using that style. (AACSB: Communication; Reflective Thinking)
4. How should a company measure the effectiveness of its advertising? (AACSB: Communication)
5. What are the role and functions of public relations within an organization? (AACSB: Communication)
6. Discuss the tools used by public relations professionals. (AACSB: Communication)

Applying the Concepts

1. Select two print ads (such as magazine ads). Based on the three characteristics advertising appeals should possess, evaluate the appeals used in each ad. (AACSB: Communication; Reflective Thinking)
2. Marketers are developing branded Web series to get consumers involved with their brands. One successful series is "Real Women of Philadelphia" from Kraft (www.realwomenofphiladelphia.com). Fans can watch videos of professionals making delicious, simple recipes with one common ingredient—Philadelphia Cream Cheese, of course! The site features a recipe contest and entrants even get training on how to photograph their entries to make them look as yummy as possible. Visit this Web site and find two other branded Web series. Critique the sites and describe how viewers interact with them. (AACSB: Communication; Use of IT; Reflective Thinking)
3. In a small group, discuss the major public relations tools and develop three public relations items for each of the following: a hospital, a restaurant, and any brand of your choice. (AACSB: Communication; Reflective Thinking)

Focus on Technology

The Internet can pose a public relations nightmare for companies. Venerable P&G found this out firsthand after launching its revolutionary Dry Max technology for its best-selling Pampers diapers. Touted its most significant innovation in 25 years, the new diapers are 20 percent smaller but much more absorbent than competitive brands because a more-absorbent chemical gel replaced the cottony fluff pulp. Not long after the new product's release, however, customer complaints of severe diaper rash or chemical burns surfaced on the Internet. Angry parents spouted off on P&G's Web sites and several Facebook pages: "Recall Pampers Dry Max Diapers," "Boycott New Pampers Dry Max," and "Bring Back the Old Cruisers/Swaddlers." Mainstream media picked up the discontent and started spreading the news. The CPSC received almost 5,000 consumer complaints—85 percent occurring within the first few months of the product launch. The CPSC later reported no link between severe diaper rash and Pampers Dry Max but that did not stop some parents from continuing to use the Internet to call for boycotts or lawyers to solicit lawsuits.

1. Research P&G's problems with its Pampers Dry Max brand. How has P&G responded to this crisis? Write a report on what you learn. (AACSB: Communication; Reflective Thinking)
2. Find examples of other online rumors and discuss how companies can combat negative publicity spread on the Internet. (AACSB: Communication; Reflective Thinking)

Focus on Ethics

The FDA is enlisting doctors in its battle against misleading and deceptive prescription drug ads targeted toward consumers (called direct-to-consumer or DTC ads) and other promotional activities directed at medical professionals. You've seen television commercials for Viagra, Lipitor, Chantix, and other prescription drugs. Since the FDA relaxed the rules regarding broadcast prescription drug advertising in the late 1990s, DTC advertising has increased by more than 300 percent, with $4.5 billion spent in 2009. That's actually down from the peak of $5.5 billion in 2006 because of the recession. It's difficult for the FDA to monitor DTC ads and other promotional activity aimed at medical professionals, so it created the "Bad Ad Program" and spent most of 2010 educating doctors about this program.

1. Visit www.fda.gov and search for "Bad Ad Program" to learn more about it. What is the FDA asking medical professionals to look for in DTC ads and other promotional activities directed toward them? How might this program be abused by the pharmaceutical industry? (AACSB: Communication; Ethical Reasoning; Reflective Thinking)
2. Many consumers are not aware of the FDA's regulations regarding DTC advertising. The agency has a parallel program—called EthicAd—to educate consumers and encourage them to report violations.

Search the FDA's Web site for this program, look at examples of correct and incorrect ads, and evaluate two prescription drug advertisements using these guidelines. (AACSB: Communication; Ethical Reasoning; Reflective Thinking)

Marketing & the Economy

McDonald's

Despite a down economy—or perhaps because of it—McDonald's has been beating competitors badly in recent years. In fact, the fast-food giant pretty much owns the value menu. But, surprisingly, McDonald's current financial good fortunes are not being driven by its low-price items but rather by its higher-price, higher-margin items. Throughout tough economic times, McDonald's advertising strategy focused on its traditional, full-priced specialties. One month it pushed Big Macs, the next month Chicken McNuggets, and then Quarter Pounders. But McDonald's hasn't forsaken its dollar menu. Instead, it has increased promotional support for its flagship specialties. It's all part of an effort to grab business from diners who are trading down from higher-priced eateries. McDonald's has gambled that people would view the old favorites as comfort food. Add to this promotional strategy, the burger king's migration into a full beverage menu that includes lattes and all-fruit smoothies, and you have a real one-two punch. The company's overall revenues and profits continue to rise, even as the percentage of revenues generated from lower-price items falls. Its promotional, pricing, and product strategies are attracting new customers while also encouraging existing value menu customers to trade up. All these have both executives and franchisees singing "I'm lovin' it."

1. What was McDonald's advertising objective with this promotion campaign?
2. In communicating value during hard times, what elements of McDonald's advertising strategy contributed to its success?

Marketing by the Numbers

Nielsen ratings are very important to both advertisers and television programmers because the cost of television advertising time is based on this rating. A show's *rating* is the number of households in Nielsen's sample tuned to that program divided by the number of television-owning households—115 million in the United States. A show's *share* of the viewing audience is the number of households watching that show divided by the number of households using TV at that time. That is, ratings consider all TV-owning households, whereas share considers only those households that actually have the television on at the time. Ratings and share are usually given together. For example, during one evening hour on 9 September 2010, the following ratings/shares were reported for the major broadcast networks:

Network	Program	Rating/Share
NBC	*Sunday Night Football* (played on Thursday)	13.6/22
CBS	*Big Brother 12*	4.6/8
ABC	*Wipeout*	3.1/5
FOX	*Bones*	2.9/5
The CW	*The Vampire Diaries*	2.0/3

1. If one rating point represents 1 percent of TV households, how many households were watching football that evening? How many households were tuned to *The Vampire Diaries*? (AACSB: Communication; Analytical Reasoning)
2. What total share of the viewing audience was captured by all five networks? Explain why share is higher than the rating for a given program. (AACSB: Communication; Analytical Reasoning; Reflective Thinking)

Video Case

E*TRADE

Super Bowl XXXIV, the first of the new millennium, was known as the Dot-com Bowl for the glut of Internet companies that plopped down an average of $2.2 million per 30-second ad spot. Today, most of the companies that defined the dot-com glory days are gone. But one darling of the dot-com era, E*TRADE, remains one of the few survivors. Although E*TRADE has experienced challenges since the turn of the century, it has also turned profits. Advertising on the big game hasn't worked out well for everyone. But for E*TRADE, Super Bowl ads have been part of a larger advertising effort that played a role in its survival. In this video, E*TRADE reports on its advertising strategy as well as the advantages and disadvantages of Super Bowl advertising.

After viewing the video featuring E*TRADE, answer the following questions about advertising and promotions:

1. What makes E*TRADE different from now-defunct dot-coms?
2. What has been the role of advertising at E*TRADE?
3. Discuss the factors in E*TRADE's decision to advertise during the Super Bowl.

Company Case

Scoot:
Is Imitation the Sincerest Form of Flattery?

In a move to tap on the increasing budget airline sector and satiate price-sensitive passengers, the Singapore Airlines Group (SAG) decided to launch a low-cost airline to complement its premium full-service Singapore Airlines and regional airline, Silkair. Serving these two ends of the spectrum, a strong brand identity for the low-cost airline is needed to differentiate it from its sister airlines and minimize confusion.

More than just a low-cost airline, SAG wanted an airline to be distinctive in a refreshingly fun way, targeted at the time-rich cash-poor, the young and the young-at-heart, and those who just want a good deal.

In 2011, Scoot was born and began operations in 2012. The quirky, slightly offbeat name was chosen because it represents how it is positioned—to go away whenever one wants to, without having to worry about costs. Importantly, the name is short and memorable. In line with its energetic and spirited personality, its flight attendants are dressed up in yellow, contrasted against black, for a bright, vivid, and happy image. Through campaigns, it developed its own attitude, dubbed "Scootitude", reflecting an unconventional attitude towards having fun.

This refreshing positioning has not gone unnoticed. In 2014, a low-cost American airline appeared to have mimicked Scoot in every way. Spirit Airlines, headquartered in Florida, and in existence since the 1980s decided to rebrand itself as a fun airline. Nothing wrong with that except that from its Web site, logo, illustrations, icons, color, and down to flight attendants' uniform, Spirit's rebranded look was similar to Scoot's. Even the same Pantone shade of yellow was used and similar hand-scribbled black font in its advertisements.

What was Scoot's response? Scoot didn't think that it was just a coincidence that the brands are so similar. However, instead of taking legal action, it decided to take a lighter humorous approach.

A post on Scoot's Facebook page reads, "So a little yellow birdie told us that a certain American airline

looks familiar. It looks like #ScootInspires their current campaign . . . Well, we're really flattered!" In a similarly tongue-in-cheek video, Scoot's CEO Campbell Wilson compared the similarities between the two airlines. He also thanked Spirit's CEO Ben Baldanza for spreading Scoot's brand to the other side of the world. He also added that if Spirit wanted to act like Scoot, "Please do it well!"

Continuing in a light-hearted manner, Wilson sent a letter to Baldanza saying, "I must express my admiration for the branding you've recently rolled out, which if truth be told, looks remarkably familiar. It looks very similar to the brand imagery my airline has been running since 2012. Great minds, as they say, think alike!"

While Spirit admitted that there are similarities, they added that its brand and concepts were developed independently. Spirit referred to the two airlines as doppelgangers (meaning "a ghostly double for a living person" in German) and that they share the same approach to saving customers money.

In the weeks that follow, Scoot carried on its friendly campaign to poke fun and engage Spirit and the public at the same time. In response to Spirit's remark of doppelgangers, Wilson wrote in his letter to Baldanza that "we could be brothers from another mother." It also sent Spirit a Scoot creative tool kit, "How to Create a Scoot Ad in Under Five Minutes," with a guide detailing its brand identity, the font to use, and the types of pictures acceptable for its promotional efforts. It also sent a blimp floating over Spirit's headquarters with the message, "Hey Spirit. You can't have our Scootitude #FLYSCOOT," printed on the side.

However, underlying these physical similarities that may create consumer confusion, Wilson wanted the public to know that there's where the similarities stop. Wilson said, "There certainly are similarities in our low fares, and obviously in branding and marketing since Spirit was, well, inspired to change theirs. But I think that might be where the similarities end. Scoot was voted 2015's Best Low Cost Airline Asia-Pacific earlier in the year. Spirit… Well, let's just say that in a recent public poll about airlines in the United States, they stood out in a very different way." Wilson was referring to Spirit's continued presence at the bottom of most customer satisfaction surveys.

Two weeks after Scoot fired its first salvo, the jabbing continued. Scoot took delivery of its 787 Dreamliner and announced that it was returning the compliment by naming its newest airplane "Inspiring Spirit." An open invitation was extended to Baldanza to attend the naming ceremony, but he neither replied nor attended.

Questions for Discussion

1. Do you agree that Scoot should have taken the humorous approach towards Spirit instead of legal action? Why? What are the advantages of the tongue-in-cheek approach?
2. How would you assess Spirit's almost non-response to this copycat branding?
3. What next do you think Scoot should do?

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Objective Outline

OBJECTIVE 1
Discuss the role of a company's salespeople in creating value for customers and building customer relationships.
Personal Selling (512–514)

OBJECTIVE 2
Identify and explain the six major sales force management steps.
Managing the Sales Force (514-525)

OBJECTIVE 3
Discuss the personal selling process, distinguishing between transaction-oriented marketing and relationship marketing.
The Personal Selling Process (525-528)

OBJECTIVE 4
Explain how sales promotion campaigns are developed and implemented.
Sales Promotion (528-536)

Chapter

16

Previewing the Concepts

Personal Selling and Sales Promotion

In the previous two chapters, you learned about communicating customer value through integrated marketing communications (IMC) and about two elements of the promotion mix—advertising and public relations. In this chapter, we'll look at two more IMC elements—personal selling and sales promotion. Personal selling is the interpersonal arm of marketing communications, in which the sales force interacts with customers and prospects to build relationships and make sales. Sales promotion consists of short-term incentives to encourage the purchase or sale of a product or service. As you read on, remember that although this chapter examines personal selling and sales promotion as separate tools, they must be carefully integrated with other elements of the promotion mix.

When someone mentions "salesperson," what sort of image comes to mind? Perhaps you think about the pushy retail sales clerks. Think again. Today, for most companies, personal selling plays an important role in building profitable customer relationships. Consider Tupperware, the leading container ware manufacturer, that is using Asia's networking relationships to sell its products.

Tupperware: Capitalizing on Indonesian Women's Networking

Tupperware, the leading kitchenware and container manufacturer, works on a business model that is built on tapping into social networks. It has a strong foothold in several Asian markets including Indonesia. Using a direct marketing model in Indonesia, it now has a 250,000-strong sales force compared to a meager 2,000 in 2003. In 2012, Indonesia surpassed Germany as the biggest market for Tupperware, making the Asia-Pacific region the company's biggest market. Like its beginning in 1960s America, many Indonesian women today are more involved in household activities, preferring to stay at home and raise their children. This creates the right audience for gatherings headed by saleswomen who have moved beyond conservative social norms and have ventured into the work environment. In fact, Tupperware has continuously encouraged women to break insecurities linked with taking on a working role. Its "Chain of Confidence" campaign helps women empowerment by posting videos of interviews with saleswomen about improvements and changes in their lives. For Indonesia, it created "Tupperware She Can," which also posts aspirational videos for the women in the country.

What's the reason for Tupperware's success? Its networking concept is very much similar to the Indonesian tradition of *arisan*, or gathering, where women meet up regularly to catch up on family news, the latest recipes, and neighborhood gossips.

Such *arisans* not only serve as a place to hold Tupperware gatherings, it is also an effective recruiting ground for new agents who can hold similar gatherings with other groups of friends and expand the outreach of Tupperware. The saleswomen use these meetings as means to not only highlight the products, but also to identify and recruit new saleswomen, those who will be able to do the same in their other groups of friends.

> Tupperware's success in Indonesia lies in its female sales force and its networking concept called *arisan*, or gathering, where women meet and catch up on the latest news.

In Indonesia, some of these *arisans* also act as informal banks, where women pool their money at each meeting and give the pot to one participant per gathering. This helps customers buy the more expensive Tupperware items.

Besides being a durable product, Tupperware's success in Indonesia lies in its female sales force. For years, the prescribed social roles of Indonesian women are as wives and mothers. And with half of the population living on less than $2 a day, joining the Tupperware workforce provided a way out of poverty.

Its sales force felt that joining Tupperware increased their financial status and solvency. Some 97 percent felt a positive change in their financial situation, and 70 percent reported having the ability to save their earnings.

By providing financial independence to women, Tupperware saleswomen felt they have become more admired and appreciated in the home, and have become role models for their children. They also become more confident in their abilities. Tupperware trainings help them to manage their duties of mother, housewife, and entrepreneur.[1]

In this chapter, we examine two more marketing communications tools: personal selling and sales promotion. Personal selling consists of interpersonal interactions with customers and prospects to make sales and maintain customer relationships. Sales promotion involves short-term incentives to encourage customer purchasing, reseller support, and sales force efforts.

Personal Selling

Robert Louis Stevenson once noted that "everyone lives by selling something." Companies all around the world use sales forces to sell products and services to business customers and final consumers. But sales forces are also found in many other kinds of organizations. For example, colleges use recruiters to attract new students and churches use membership committees to attract new members. Museums and fine arts organizations use fundraisers to contact donors and raise money. Even governments use sales forces. For instance, regional economic development agencies employ account executives to attract prospective investors. In the first part of this chapter, we examine personal selling's role in the organization, sales force management decisions, and the personal selling process.

Personal selling
Personal presentation by the firm's sales force for the purpose of making sales and building customer relationships.

The Nature of Personal Selling

Personal selling is one of the oldest professions in the world. The people who do the selling go by many names: salespeople, sales representatives, district managers, account executives, sales consultants, sales engineers, agents, and account development reps, to name just a few.

People hold many stereotypes of salespeople—including some unfavorable ones. Salespeople have been described as loners, traveling their territories, trying to foist their wares on unsuspecting or unwilling buyers. However, modern salespeople are a far cry from these unfortunate stereotypes. Today, most salespeople are well-educated, well-trained professionals who work to build and maintain long-term customer relationships. They listen to their customers, assess customer needs, and organize the company's efforts to solve customer problems.

Boeing – For Boeing, selling high-tech aircraft at $150 million or more takes more than just a warm smile. A single big sale to an airline, government, or military customer can run into billions of dollars. Boeing salespeople head up an extensive team of specialists—sales and service technicians, financial analysts, planners, engineers—all dedicated to finding ways to satisfy a large customer's needs. On the customer side, buying a batch of jetliners involves many decision makers from all levels of the buying organization, and layer upon layer of subtle and not-so-subtle buying influences. The selling process is nerve-rackingly slow—it can take two or three years from the first sales presentation to the day the sale is announced. After getting the order, salespeople then stay in constant touch to keep track of the account's equipment needs and to make certain the customer stays satisfied. The real challenge is to win buyers' business by building day-in, day-out year-in, year-out partnerships with them based on superior products and close collaboration.

› Professional selling – It takes more than fast talk and a warm smile to sell high-tech products. Boeing's real challenge is to win buyers' business by building partnerships day-in, day-out, year-in, year-out, with its customers.

The term **salesperson** covers a wide range of positions. At one extreme, a salesperson might be largely an *order taker*, such as the department store salesperson standing behind the counter. At the other extreme are *order getters*, whose positions demand *creative selling* and *relationship building* for products and services ranging from appliances, industrial equipment, and airplanes to insurance and information technology services. Here, we focus on the more creative types of selling and on the process of building and managing an effective sales force.

Salesperson
An individual representing a company to customers by performing one or more of the following activities: prospecting, communicating, selling, servicing, information gathering, and relationship building.

The Role of the Sales Force

Personal selling is the interpersonal arm of the promotion mix. Advertising consists largely of one-way, non-personal communication with target consumer groups. In contrast, personal selling involves two-way, personal communication between salespeople and individual customers—whether face to face, by telephone, through video or Web conferences, or by other means. Personal selling can be more effective than advertising in more complex selling situations. Salespeople can probe customers to learn more about their problems and then adjust the marketing offer and presentation to fit the special needs of each customer.

The role of personal selling varies from company to company. Some firms have no salespeople at all—for example, companies that sell only online or through catalogs, or companies that sell through manufacturer's reps, sales agents, or brokers. In most firms, however, the sales force plays a major role. In companies that sell business products and services, such as IBM, Huawei Technologies, and NEC, the company's salespeople work directly with customers. In consumer product companies such as Procter & Gamble, Sony, and Nike, the sales force plays an important behind-the-scenes role. It works with wholesalers and retailers to gain their support and to help them be more effective in selling the company's products.

Linking the Company with its Customers

The sales force serves as a critical link between a company and its customers. In many cases, salespeople serve both masters—the seller and the buyer. First, they *represent the company to customers*. They find and develop new customers and communicate information about the company's products and services. They sell products by approaching customers, presenting their products, answering objections, negotiating prices and terms, and closing sales. In addition, salespeople provide customer service and carry out market research and intelligence work.

At the same time, salespeople *represent customers to the company*, acting inside the firm as "champions" of customers' interests and managing the buyer–seller relationship. Salespeople relay customer concerns about company products and actions back inside to those who can handle them. They learn about customer needs and work with other marketing and non-marketing people in the company to develop greater customer value.

To many customers, the salesperson is the company—the only tangible manifestation of the company that they see. Hence, customers may become loyal to salespeople. The concept of salesperson-owned loyalty gives even more importance to the salesperson's customer-relationship-building abilities. Strong relationships with the salesperson will result in strong relationships with the company and its products. Poor salesperson relationships will probably result in poor company and product relationships.

Sales force management
Analysis, planning, implementation, and control of sales force activities.

Managing the Sales Force

We define **sales force management** as the analysis, planning, implementation, and control of sales force activities. It includes designing sales force strategy and structure and recruiting, selecting, training, compensating, supervising, and evaluating the firm's salespeople. These major sales force management decisions are shown in **Figure 16.1** and are discussed in the following sections.

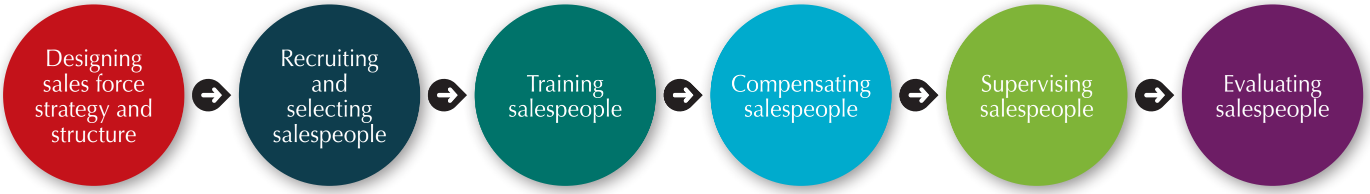


FIGURE 16.1
Major steps in sales force management

Designing Sales Force Strategy and Structure

Marketing managers face several sales force strategy and design questions. How should salespeople and their tasks be structured? How big should the sales force be? Should salespeople sell alone or work in teams with other people in the company? Should they sell in the field or by telephone or on the Web?

Sales Force Structure

A company can divide sales responsibilities along any of several lines. The decision is simple if the company sells only one product line to one industry with customers in many locations. In that case the company would use a *territorial sales force structure*. However, if the company sells many products to many types of customers, it might need either a *product sales force structure*, a *customer sales force structure*, or a combination of the two.

Territorial Sales Force Structure

In the **territorial sales force structure**, each salesperson is assigned an exclusive geographic area and sells the company's full line of products or services to all customers in that territory. This organization clearly defines each salesperson's job and fixes accountability. It also increases the salesperson's desire to build local customer relationships that, in turn, improve selling effectiveness. Finally, because each salesperson travels within a limited geographic area, travel expenses are relatively small.

A territorial sales organization is often supported by many levels of sales management positions. Individual sales reps may report to area managers, who in turn report to regional managers who report to a director of sales.

Territorial sales force structure
A sales force organization that assigns each salesperson to an exclusive geographic territory in which that salesperson sells the company's full line.

Product Sales Force Structure

Salespeople must know their products—especially when the products are numerous and complex. This need, together with the growth of product management, has led many companies to adopt a **product sales force structure**, in which the sales force sells along product lines. For example, Toshiba may have different sales force teams for its television and refrigerator lines.

The product structure can lead to problems, however, if a single large customer buys many different company products. Several salespeople might end up calling on the same customer on the same day. This means that they travel over the same routes and wait to see the same customer's purchasing agents. These extra costs must be compared with the benefits of better product knowledge and attention to individual products.

Product sales force structure
A sales force organization under which salespeople specialize in selling only a portion of the company's products or lines.

Customer Sales Force Structure

More and more companies are now using a **customer** (or **market**) **sales force structure**, in which they organize the sales force along customer or industry lines. Separate sales forces may be set up for different industries, for serving current customers versus finding new ones, and for major accounts versus regular accounts.

Organizing the sales force around customers can help a company become more customer-focused and build closer relationships with important customers. Take for example, IBM:

Customer (or market) sales force structure
A sales force organization under which salespeople specialize in selling only to certain customers or industries.

❯ IBM's shift from a product-based structure to a customer-based one contributed to their dramatic turnaround in recent years.

IBM shifted from a product-based structure to a customer-based one. Before the shift, droves of salespeople representing different IBM software, hardware, and services divisions might call on a single large client, creating confusion and frustration. Such large customers wanted a "single face," one point of contact for all its products and services. Following the restructuring, a single IBM "client executive" works with each large customer and manages a team of IBMers—product reps, systems engineers, consultants, and others—who work with the customer. The client executive becomes an expert in the customer's industry and owns the business relationship with the client. Such an intense focus on customers is widely credited for IBM's dramatic turnaround in recent years.

Complex Sales Force Structures

When a company sells a wide variety of products to many types of customers over a broad geographic area, it often combines several types of sales force structures. Salespeople can be specialized by customer and territory, by product and territory, by product and customer, or by territory, product, and customer. No single structure is best for all companies and situations. Each company should select a sales force structure that best serves the needs of its customers and fits its overall marketing strategy.

Sales Force Size

Once the company has set its structure, it is ready to consider *sales force size*. Sales forces may range in size from only a few salespeople to tens of thousands. Salespeople constitute one of the company's most productive—and most expensive—assets. Therefore, increasing their number will increase both sales and costs.

Many companies use some form of *workload approach* to set sales force size. Using this approach, a company first groups accounts into different classes according to size, account status, or other factors related to the amount of effort required to maintain them. It then determines the number of salespeople needed to call on each class of accounts the desired number of times.

The company might think as follows: Suppose we have 1,000 Type-A accounts and 2,000 Type-B accounts. Type-A accounts require 36 calls a year and Type-B accounts require 12 calls a year. In this case, the sales force's *workload*—the number of calls it must make per year—is 60,000 calls [(1,000 × 36) + (2,000 × 12) = 36,000 + 24,000 = 60,000]. Suppose our average salesperson can make 1,000 calls a year. Thus, we need 60 salespeople (60,000 ÷ 1,000).[2]

Other Sales Force Strategy and Structure Issues

Sales management must also decide who will be involved in the selling effort and how various sales and sales support people will work together.

Outside sales force (or field sales force)
Salespeople who travel to call on customers in the field.

Inside sales force
Salespeople who conduct business from their offices via telephone, the Internet, or visits from prospective buyers.

Outside and Inside Sales Forces

The company may have an **outside sales force** (or **field sales force**), an **inside sales force**, or both. Outside salespeople travel to call on customers in the field. Inside salespeople conduct business from their offices via telephone, the Internet, or visits from buyers.

Some inside salespeople provide support for the outside sales force, freeing them to spend more time selling to major accounts and finding new prospects. For example, *technical sales support people* provide technical information and answers to customers' questions. *Sales assistants* provide administrative backup for outside salespeople. They call ahead and confirm appointments, follow up on deliveries, and answer customers' questions when outside salespeople cannot be reached.

Other inside salespeople do more than just provide support. *Telemarketers* and *online sellers* use the phone and Internet to find new leads and qualify prospects or to sell and service accounts directly. Telemarketing and online selling can be very effective, less costly ways to sell to smaller, harder-to-reach customers. Depending on the complexity of the product and customer, for example, a telemarketer can make from 20 to 33 decision-maker contacts a day, compared to the average of four that an outside salesperson can make. And whereas an average business-to-business field sales call costs $600 or more, a routine industrial telemarketing or online contact might average only $20 to $30.[3]

In addition to costs savings, the digital, mobile, and social media environments make buyers more receptive to, or even prefer, phone and online contact versus high level face-to-face contact once required. Many customers are more inclined to gather information online. They routinely use the phone, online meetings, and social media interactions to engage sellers and close deals. However, in social-oriented cultures where interpersonal relations are important, face-to-face sales interactions are still essential to closing sales and to building and maintaining customer relationships. Indeed, the practice of *guanxi* translates into large sales forces for maintaining contacts with clients.

❯ Telemarketers use the phone to find new leads and qualify prospects or to sell and service accounts directly.

Team Selling

As products become more complex, and as customers grow larger and more demanding, a single salesperson simply can't handle all of a large customer's needs. Instead, most companies now use **team selling** to service large, complex accounts. Sales teams can unearth problems, solutions, and sales opportunities that no individual salesperson could. Such teams might include experts from any area or level of the selling firm—sales, marketing, technical and support services, R&D, engineering, operations, finance, and others. In team selling situations, the salesperson shifts from "soloist" to "orchestrator."

Team selling
Using teams of people from sales, marketing, engineering, finance, technical support, and even upper management to service large, complex accounts.

Often, the move to team selling mirrors similar charges in customers' buying organizations. As more businesses are using or are interested in using multifunctional buying teams, sellers have employed selling teams to sell effectively to buying teams. For example, Procter & Gamble sales reps are organized into "customer business development (CBD) teams." Each CBD team is assigned to a major P&G customer. Teams consist of a customer business development manager, several account executives (each responsible for a specific category of P&G products), and specialists in marketing strategy, operations, information systems, logistics, and finance. Team selling does have some pitfalls. For example, selling teams can confuse or overwhelm customers who are used to working with only one salesperson. Salespeople who are used to having customers all to themselves may have trouble learning to work with and trust others on a team. Finally, difficulties in evaluating individual contributions to the team selling effort can create some sticky compensation issues.

Recruiting and Selecting Salespeople

At the heart of any successful sales force operation is the recruitment and selection of good salespeople. The performance difference between an average salesperson and a top salesperson can be substantial. In a typical sales force, the top 30 percent of the salespeople might bring in 60 percent of the sales. Thus, careful salesperson selection can greatly increase overall sales force performance. Beyond the differences in sales performance, poor selection results in costly turnover. When a salesperson quits, the costs of finding and training a new salesperson—plus the costs of lost sales—can be very high. Also, a sales force with many new people is less productive, and turnover disrupts important customer relationships.

› A single salesperson can't handle all of a large customer's needs. Hence, companies now use team selling to service large, complex accounts.

What sets great salespeople apart from all the rest? In an effort to profile top sales performers, Gallup Consulting, a division of the well-known Gallup polling organization, has interviewed hundreds of thousands of salespeople. Its research suggests that the best salespeople possess four key talents: intrinsic motivation, disciplined work style, the ability to close a sale, and perhaps most important, the ability to build relationships with customers.[4]

Super salespeople are motivated from within. "Different things drive different people—pride, happiness, money, you name it," says one expert. "But all great salespeople have one thing in common: an unrelenting drive to excel." Some salespeople are driven by money, a hunger for recognition, or the satisfaction of competing and winning. Others are driven by the desire to provide service and to build relationships. The best salespeople possess some of each of these motivating factors.

Whatever their motivation, salespeople must also have a disciplined work style. If salespeople aren't organized and focused, and if they don't work hard, they can't meet the ever-increasing demands customers make these days. Great salespeople are tenacious about laying out detailed, organized plans, then following through in a timely, disciplined way.

› **Great salespeople** – The best salespeople possess intrinsic motivation, disciplined work style, the ability to close a sale, and perhaps most important, the ability to build relationships with customers.

Other skills mean little if a salesperson can't close the sale. So what makes for a great closer? For one thing, it takes unyielding persistence. "Great closers are like great athletes," says one sales trainer. "They're not afraid to fail, and they don't give up until they close." Great closers also have a high level of self-confidence and believe that they are doing the right thing.

Perhaps most important in today's relationship-marketing environment, top salespeople are customer problem solvers and relationship builders. They instinctively understand their customers' needs. Talk to sales executives and they'll describe top performers in these terms: Empathetic. Patient. Caring. Responsive. Good listeners. Honest. Top performers can put themselves on the buyer's side of the desk and see the world through their customers' eyes. They don't want just to be liked, they want to add value for their customers.

When recruiting, companies should analyze the sales job itself and the characteristics of its most successful salespeople to identify the traits needed by a successful salesperson in their industry. Then, it must recruit the right salespeople. The human resources department looks for applicants by getting names from current salespeople, using employment agencies, placing classified ads, searching the Web, and working through college placement services. Another source is to attract top salespeople from other companies. Proven salespeople need less training and can be immediately productive.

Recruiting will attract many applicants from whom the company must select the best. The selection procedure can vary from a single informal interview to lengthy testing and interviewing. Many companies give formal tests to sales applicants. Tests typically measure sales aptitude, analytical and organizational skills, personality traits, and other characteristics. But test scores provide only one piece of information in a set that includes personal characteristics, references, past employment history, and interviewer reactions.

Training Salespeople

New salespeople may spend anywhere from a few weeks or months to a year or more in training. In Asia, sales training is longer in MNCs than in local businesses. In addition to that, some companies provide continuing sales training via seminars, sales meetings, and the Web throughout the salesperson's career. The opening case in this chapter is a good example.

Training programs have several goals. First, salespeople need to know about customers and how to build relationships with them. So the training program must teach them about different types of customers and their needs, buying motives, and buying habits. And it must teach them how to sell effectively and train them in the basics of the selling process. Salespeople also need to know and identify with the company, its products, and its competitors. So an effective training program teaches them about the company's objectives, organization, and chief products and markets and about the strategies of major competitors.

› Sales training – Some companies provide continuing sales training via seminars, sales meetings, and the Web throughout the salesperson's career.

Today, many companies are adding digital e-learning to their sales training programs. Online training ranges from simple text- and video-based product training and Internet-based sales exercises that build sales skills to sophisticated simulations that re-create the dynamics of real-life sales calls.

Training online can cut travel and other training costs, and it takes less of a salesperson's selling time. It also makes on-demand training available to salespeople, letting them train as little or as much as needed, whenever and wherever needed. Although most e-learning is Web-based, companies are now also offering on-demand training via mobile digital device.

Compensating Salespeople

To attract good salespeople, a company must have an appealing compensation plan. Compensation is made up of several elements—a fixed amount, a variable amount, expenses, and fringe benefits. The fixed amount, usually a salary, gives the salesperson some stable income. The variable amount, which might be commissions or bonuses based on sales performance, rewards the salesperson for greater effort and success.

Management must decide what *mix* of these compensation elements makes the most sense for each sales job. Different combinations of fixed and variable compensation give rise to four basic types of compensation plans—straight salary, straight commission, salary plus bonus, and salary plus commission. A study of sales force compensation plans showed that 70 percent of all companies surveyed use a combination of base salary and incentives. The average plan consisted of about 60 percent salary and 40 percent incentive pay.[5]

The sales force compensation plan can both motivate salespeople and direct their activities. Compensation should direct the sales force toward activities that are consistent with overall marketing objectives. For example, if the strategy is to grow rapidly and gain market share, the compensation plan might include a larger commission component, coupled with a new-account bonus to encourage high sales performance and new-account development. In contrast, if the goal is to maximize current account profitability, the compensation plan might contain a larger base-salary component with additional incentives for current account sales or customer satisfaction.

In fact, more and more companies are moving away from high commission plans that may drive salespeople to make short-term grabs for business. They worry that a salesperson who is pushing too hard to close a deal may ruin the customer relationship. Instead, companies are designing compensation plans that reward salespeople for building customer relationships and growing the long-run value of each customer.

Supervising and Motivating Salespeople

New salespeople need more than a territory, compensation, and training—they need supervision and motivation. The goal of *supervision* is to help salespeople "work smart" by doing the right things in the right ways. The goal of *motivation* is to encourage salespeople to "work hard" and energetically toward sales force goals. If salespeople work smart and work hard, they will realize their full potential—to their own and the company's benefit.

Supervising Salespeople

Companies vary in how closely they supervise their salespeople. Many help their salespeople to identify target customers and set call norms. Some may also specify how much time the sales force should spend prospecting for new accounts and set other time management priorities. One tool is the weekly, monthly, or annual *call plan* that shows which customers and prospects to call on and which activities to carry out. Another tool is *time-and-duty analysis*. In addition to time spent selling, the salesperson spends time traveling, waiting, taking breaks, and doing administrative chores.

Figure 16.2 shows how salespeople spend their time. On average, active selling time accounts for 37 percent of total working time! Companies are always looking for ways to save time—simplifying record keeping, finding better sales call and routing plans, supplying more and better customer information, and using phones, email, or videoconferencing instead of traveling.

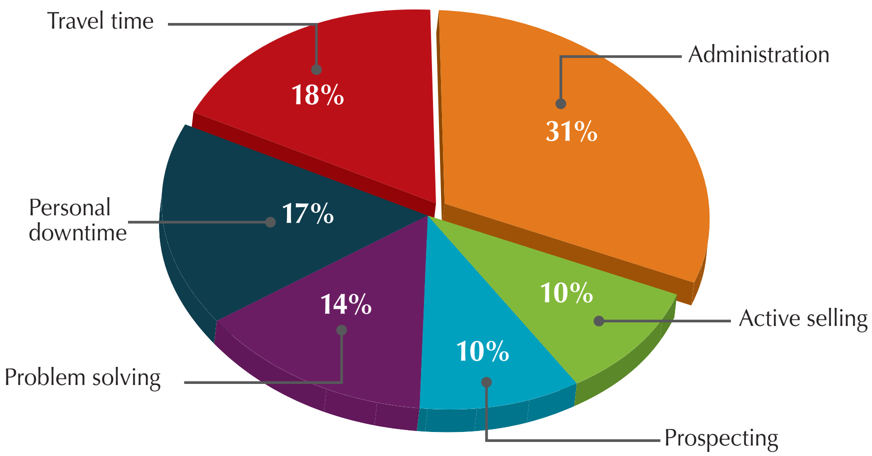


FIGURE 16.2
How salespeople spend their time
Source: Proudfoot Consulting. Data used with permission.

Many firms have adopted *sales force automation systems*—computerized, digitized sales force operations that let salespeople work more effectively anytime, anywhere. Companies now routinely equip their salespeople with new-age technologies such as laptops, smartphones, wireless connections, Webcams for videoconferencing, and customer-contact and relationship management software. Armed with these technologies, salespeople can more effectively and efficiently profile customers and prospects, analyze and forecast sales, schedule sales calls, make presentations, prepare sales and expense reports, and manage account relationships. The result is better time management, improved customer service, lower sales costs, and higher sales performance.[6]

› Sales force automation – Many sales forces have gone high tech, equipping salespeople with everything from smartphones, wireless Web connections, and videoconferencing to customer-contact and relationship management software that helps them to be more effective and efficient.

Motivating Salespeople

Salespeople often need special encouragement to do their best. Management can boost sales force morale and performance through its organizational climate, sales quotas, and positive incentives. Organizational climate describes the feeling that salespeople have about their opportunities, value, and rewards for a good performance. Companies that treat their salespeople as valued contributors with opportunities for promotion enjoy higher sales force performance and less employee turnover.

Many companies motivate their salespeople by setting **sales quotas**—standards stating the amount they should sell and how sales should be divided among the company's products. Compensation is often related to how well salespeople meet their quotas. Companies also use various *positive incentives* to increase sales force effort. *Sales meetings* provide social occasions, breaks from routine, chances to meet and talk with "company brass," and opportunities to air feelings and to identify with a larger group. Companies also sponsor *sales contests* to spur the sales force to make a selling effort above what would normally be expected. Other incentives include honors, merchandise and cash awards, trips, and profit-sharing plans.[7]

Sales quota
A standard that states the amount a salesperson should sell and how sales should be divided among the company's products.

Evaluating Salespeople and Sales-Force Performance

We have thus far described how management communicates what salespeople should be doing and how it motivates them to do it. This process requires good feedback. And good feedback means getting regular information about salespeople to evaluate their performance.

Management gets information about its salespeople in several ways. The most important source is *sales reports*, including weekly or monthly work plans and longer-term territory marketing plans. Salespeople also write up their completed activities on *call reports* and turn in *expense reports* for which they are partly or wholly repaid. The company can also monitor the sales and profit performance of the salesperson's territory. Additional information comes from personal observation, customer surveys, and talks with other salespeople.

Using various sales force reports and other information, sales management evaluates members of the sales force. It evaluates salespeople on their ability to "plan their work and work their plan." Formal evaluation forces management to develop and communicate clear standards for judging performance. It also provides salespeople with constructive feedback and motivates them to perform well.

On a broader level, management should evaluate the performance of the sales force as a whole. Is the sales force accomplishing its customer relationship, sales, and profit objectives? Is it working well with other areas of the marketing and

Real Marketing 16.1

B2B Salespeople:
In This Digital and Social Media Age, Who Needs Them Anymore?

It's hard to imagine a world without salespeople. But according to some analysts, there will be a lot fewer of them a decade from now. With the explosion of the Internet, mobile devices, social media, and other technologies that link customers directly with companies, they reason, who needs face-to-face selling anymore? According to the doubters, salespeople are rapidly being replaced by Web sites, email, blogs, mobile apps, video sharing, virtual trade shows, social media such as LinkedIn and Facebook, and a host of other digital-age interaction tools.

Research firm Gartner predicts that by 2020, 85 percent of all interactions between businesses will be executed without human intervention, requiring fewer salespeople. Of the 18 million salespeople now employed in the United States, the firm says, there will be only about 4 million left. "The world no longer needs salespeople," one doomsayer boldly proclaims. "Sales is a dying profession and soon will be as outmoded as oil lamps and the rotary phone." Says another, "If we don't find and fill a need faster than a computer, we won't be needed."

So, is B2B selling really dying? Will the Internet, mobile technologies, and social media replace the age-old art of selling face to face? To answer these questions, SellingPower magazine called together a panel of sales experts and asked them to weigh in on the future of B2B sales. The panel members agreed that technology is radically transforming the selling profession. Today's revolutionary changes in how people communicate are affecting every aspect of business, and selling is no exception.

But is B2B selling dead in this Internet age? Don't believe it, says the SellingPower panel. Technology, the Internet, and social media won't soon be replacing person-toperson buying and selling. Selling has changed, agrees the panel, and the technology can greatly enhance the selling process. But it can't replace many of the functions that salespeople perform. "The Internet can take orders and disseminate content, but what it can't do is discover customer needs," says one panelist. "It can't build relationships, and it can't prospect on its own." Adds another panelist, "Someone must define the company's value proposition and unique message and communicate it to the market, and that person is the sales rep."

What is dying, however, is what one panelist calls the account-maintenance role—the order taker who stops by the customer's office on Friday and says, "Hey, got anything for me?" Such salespeople are not creating value and can easily be replaced by automation. However, salespeople who excel at new customer acquisition, relationship management, and account growth with existing customers will always be in high demand.

There's no doubt about it—technology is transforming the profession of selling. Instead of relying on salespeople for basic information and education, customers can now do much of their own pre-purchase research via Web sites, online searches, social media contacts, and other venues. Many customers now start the sales process online and do their homework about problems, competing products, and suppliers before the first sales meeting ever takes place. They don't need basic information or product education; they need solutions and new insights. So today's salespeople need "to move into the discovery and relationship-building phase, uncovering pain points and focusing on the prospect's business," says a panelist.

Rather than replacing salespeople, however, technology is augmenting them. Today's salespeople aren't really doing anything fundamentally new. They've always done customer research and social networking. Today, however, they are doing it on steroids, using a new kit of high-tech digital tools and applications.

For example, many companies are moving rapidly into online-community-based selling. Case in point: Enterprise-software company SAP, which five years ago set up EcoHub, its own online, community-powered social media and mobile marketplace consisting of customers, SAP software experts, partners, and almost anyone else who wanted to join. The EcoHub community grew quickly to more than 2 million users in 200 countries, extending across a broad online spectrum—a dedicated Web site, mobile apps, Twitter channels, LinkedIn groups, Facebook and Google+

pages, YouTube channels, and more. EcoHub grew to more than 600 “solution storefronts,” where visitors could “discover, evaluate, and buy” software solutions and services from SAP and its partners. EcoHub also let users rate and share the solutions and advice they got from other community members.

SAP was surprised to learn that what it had originally seen as a place for customers to discuss issues, problems, and solutions turned into a significant point of sale. The information, give-and-take discussions, and conversations at the site drew in customers, even for big-ticket sales of $20–$30 million or more. In fact, EcoHub has now evolved into SAP Store, a gigantic SAP marketplace where customers can engage with SAP, its partners, and each other to share information, post comments and reviews, discover problems, and evaluate and buy SAP solutions.

However, although the SAP Store draws in new potential customers and takes them through many of the initial stages of product discovery and evaluation, it doesn’t replace SAP’s or its partners’ salespeople. Instead, it extends their reach and effectiveness. Its real value is the flood of sales leads it creates for the SAP and partner sales forces. Once prospective customers have discovered, discussed, and evaluated SAP solutions online, SAP invites them to initiate contact, request a proposal, or start the negotiation process. That’s where the person-to-person selling begins.

All this suggests that B2B selling isn’t dying, it’s just changing. The tools and techniques may be different as sales forces leverage and adapt to selling in the digital and social media age. But the panelists agree strongly that B2B marketers will never be able to do without strong sales teams. Salespeople who can discover customer needs, solve customer problems, and build relationships will be needed and successful, regardless of what else changes. Especially for those big-ticket B2B sales, “all the new technology may make it easier to sell by building strong ties to customers even before the first sit-down, but when the signature hits the dotted line, there will be a sales rep there.”

Sources

Based on information from Lain Chroust Ehmann, “Sales Up!” *SellingPower,* January-February 2011, p. 40; Gerhared Gschwandtner, “How Many Salespeople Will Be Left by 2020?” *SellingPower,* May-June 2011, p. 7; Neil Baron, “Death of Sales People?” Fast Company, August 17, 2013, www.fastcompany.com/3020103/ death-of-the-sales-people; “Getting Started with SAP EcoHub,” http://ecohub.sap.com/getting-started, accessed November 2013; “SAP EcoHub to the SAP Store: The Evolution of the Online Channel at SAP,” *YouTube*, accessed in June 2014; and https://store.sap.com/, accessed in September 2014.

company organization? Are sales-force costs in line with outcomes? As with other marketing activities, the company wants to measure its *return on sales investment*.[8]

Social Selling: Online, Mobile, and Social Media Tools

Social selling
Using online, mobile, and social media to engage customers, build stronger customer relationships, and augment sales performance.

The fastest-growing sales trend is the explosion in **social selling**—the use of online, mobile, and social media to engage customers, build stronger customer relationships, and augment sales performance. New digital sales force technologies are creating exciting new avenues for connecting with and engaging customers in the digital and social media age. Some analysts even predict that the Internet will mean the death of person-to-person selling, as salespeople are ultimately replaced by Web sites, online social media, mobile apps, video and conferencing technologies, and other tools that allow direct customer contact. (see **Real Marketing 16.1**). Used properly, online and social media technologies won't make salespeople obsolete; they will make salespeople more productive and effective.

The new digital technologies are providing salespeople with powerful tools for identifying and learning about prospects, engaging customers, creating customer value, closing sales, and nurturing customer relationships. Social selling technologies can produce big organizational benefits for sales forces. They help conserve salespeople's valuable time, save travel dollars, and give salespeople new vehicles for selling and servicing accounts. Social selling hasn't really changed the fundamentals of selling. Sales forces have always taken the primary responsibility for reaching out to and engaging customers and managing customer relationships. Now, more of that is being done digitally. However, online and social media are dramatically changing the customer buying process. As a result, they are also changing the selling process. In today's digital world, many customers no longer rely as much as they once did on information and assistance provided by salespeople. Instead, they carry out more of the buying process on their own—especially the early stages. Increasingly, they use online and social media resources to analyze their own problems, research solutions, get advice from colleagues, and rank buying options before ever speaking to a salesperson. A study of business buyers found that 92 percent of buyers start their searches online and that, on average, buyers completed nearly 60 percent of the buying process before contacting a supplier.[9]

Thus, today's customers have much more control over the sales process than they had in the days when brochures, pricing, and product advice were only available from a sales rep. Customers can now browse corporate Web sites, blogs, and YouTube videos to identify and qualify sellers. They can hobnob with other buyers on social media such as LinkedIn, Google+, Twitter, or Facebook to share experiences, identify solutions, and evaluate products they are considering. As a result, if and when salespeople do enter the buying process, customers often know almost as much about a company's products as the salespeople do. "It's not just that buyers start the sales process without you," says an analyst, "they typically complete most of the purchase journey before having any contact with sales. And by that point they are far more informed about your business than you are about theirs."[10]

In response to this new digital buying environment, sellers are reorienting their selling processes around the new customer buying process. They are "going where customers are"—social media, Web forums, online communities, blogs—in order to engage customers earlier. They are engaging customers not just where and when they are buying, but also where and when they are learning about and evaluating what they will buy.

Salespeople now routinely use digital tools that monitor customer social media exchanges to spot trends, identify prospects, and learn what customers would like to buy, how they feel about a vendor, and what it would take to make a sale. They generate lists of prospective customers from online databases and social networking sites, such as LinkedIn. They create dialogs when prospective customers visit their Web and social media sites through live chats with the sales team. They use Internet conferencing tools such as WebEx, Zoom, GoToMeeting, or TelePresence to talk live with customers about products and services. They provide videos and other information on their YouTube channels and Facebook pages.

Today's sales forces are also ramping up their own use of social media to engage customers throughout the buying process. A recent survey of B2B marketers found that, although they have recently cut back on traditional media and event spending, 68 percent are investing more in social media, ranging from proprietary online customer communities to Webinars and social media and mobile applications. Consider industrial and consumer products giant General Electric (GE):

> **GE** complements its sales force efforts through a wide variety of digital and social media that inform and engage business customers, connect them with GE salespeople, and promote customer purchasing and relationships. For example, GE's various divisions—from GE Aviation to GE Healthcare and GE Energy—offer dozens of industry-specific Web sites, containing thousands of individual site areas and tens of thousands of pages that provide B2B customers with purchasing solutions, product overviews, detailed technical information, online videos and Webinars, live chats, and real-time customer support. GE also builds brand awareness and helps its sales force engage business customers deeply through a comprehensive presence in major social media, such as Facebook, Twitter, LinkedIn, Google+, Salesforce.com, and even Instagram, Pinterest, and Vine. "We have a core belief that business is social," says GE's chief marketing officer. "If you're in business you need social because it's going to get you closer to your customers. We want to get our sales team 100 percent digitized."[11]

Ultimately, social selling technologies are helping to make sales forces more efficient, cost-effective, and productive. The technologies help salespeople do what good salespeople have always done—build customer relationships by solving customer problems—but do it better, faster, and cheaper.

However, social selling also has some drawbacks. For starters, it's not cheap. In addition, such systems can intimidate low-tech salespeople or clients. Even more, there are some things you just can't present or teach via the Internet—things that require personal interactions. For these reasons, some high-tech experts recommend that sales executives use online and social media technologies to spot opportunities, provide information, maintain customer contact, and make preliminary client sales presentations but resort to old-fashioned, face-to-face meetings when the time draws near to close a big deal.

The Personal Selling Process

We now turn from designing and managing a sales force to the actual personal selling process. The **selling process** consists of several steps that the salesperson must master. These steps focus on the goal of getting new customers and obtaining orders from them. However, most salespeople spend much of their time maintaining existing accounts and building long-term customer *relationships*. We discuss the relationship aspect of the personal selling process in a later section.

Selling process
The steps that salespeople follow when selling, which include prospecting and qualifying, preapproach, approach, presentation and demonstration, handling objections, closing, and follow-up.

Steps in the Selling Process

As shown in **Figure 16.3**, the selling process consists of seven steps: prospecting and qualifying, preapproach, approach, presentation and demonstration, handling objections, closing, and follow-up.

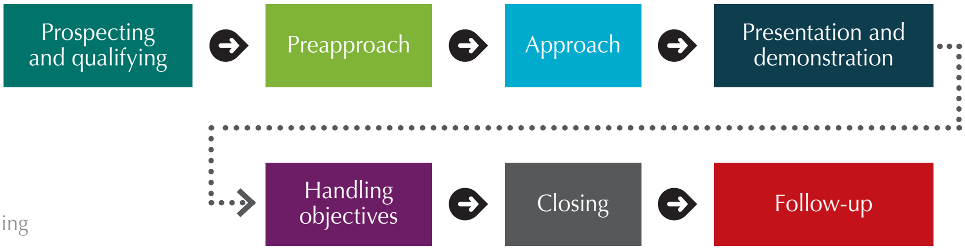


FIGURE 16.3
Major steps in effective selling

Prospecting and Qualifying

Prospecting
A salesperson or company identifies qualified potential customers.

The first step in the selling process is **prospecting**—identifying qualified potential customers. Approaching the right potential customers is crucial to selling success. Salespeople don't want to call on just any potential customers. They want to call on those who are most likely to appreciate and respond to the company's value proposition—those the company can serve well and profitably.

The salesperson must often approach many prospects to get just a few sales. Although the company supplies some leads, salespeople need skill in finding their own. The best source is referrals. Salespeople can ask current customers for referrals and cultivate other referral sources, such as suppliers, dealers, non-competing salespeople, and bankers. They can also search for prospects in directories or on the Web and track down leads using the telephone and direct mail. Or they can drop in unannounced on various offices (a practice known as "cold calling").

Salespeople also need to know how to *qualify* leads—that is, how to identify the good ones and screen out the poor ones. Prospects can be qualified by looking at their financial ability, volume of business, special needs, location, and possibilities for growth.

Preapproach

Preapproach
A salesperson learns as much as possible about a prospective customer before making a sales call.

Before calling on a prospect, the salesperson should learn as much as possible about the organization (what it needs, who is involved in the buying) and its buyers (their characteristics and buying styles). This step is known as the **preapproach**. The salesperson can consult standard industry and online sources, acquaintances, and others to learn about the company. The salesperson should set *call objectives*, which may be to qualify the prospect, to gather information, or to make an immediate sale. Another task is to decide on the best approach, which might be a personal visit, a phone call, or a letter. The best timing should be considered carefully because many prospects are busiest at certain times. Finally, the salesperson should give thought to an overall sales strategy for the account.

Approach

Approach
A salesperson meets the customer for the first time.

During the **approach** step, the salesperson should know how to meet and greet the buyer and get the relationship off to a good start. This step involves the salesperson's appearance, opening lines, and the follow-up remarks. The opening lines should be positive to build goodwill from the beginning of the relationship. This opening might be followed by some key questions to learn more about the customer's needs or by showing a display or sample to attract the buyer's attention and curiosity. As in all stages of the selling process, listening to the customer is crucial.

Presentation and Demonstration

During the **presentation** step of the selling process, the salesperson tells the "value story" to the buyer, showing how the company's offer solves the customer's problems. The customer-solution approach fits better with today's relationship marketing focus than does a hard sell or glad-handing approach. "Stop selling and start helping," advises one sales consultant. The goal should be to show how the company's products and services fit the customer's needs. Buyers today want answers, not smiles; results, not razzle-dazzle. Moreover, they don't want just products. More than ever in today's economic climate, buyers want to know how those products will add value to their businesses. They want salespeople who listen to their concerns, understand their needs, and respond with the right products and services.

Presentation
The step in the selling process in which the salesperson tells the "product story" to the buyer, highlighting customer benefits.

But before salespeople can *present* customer solutions, they must *develop* solutions to present. The solutions approach calls for good listening and problem-solving skills. The qualities that buyers *dislike most* in salespeople include being pushy, late, deceitful, unprepared, disorganized, or overly talkative. The qualities they *value most* include good listening, empathy, honesty, dependability, thoroughness, and follow-through. Great salespeople know how to sell, but more importantly they know how to listen and build strong customer relationships. Says one professional, "You have two ears and one mouth. Use them proportionally." Says another, "Everything starts with listening. I think the magic of these days is we've got so many more ways to listen."[12]

› Today's advanced presentation technologies allow for full multimedia presentations to only one or a few people. Online presentation technologies and handheld and laptop computers with presentation software have replaced the old flip chart.

Finally, salespeople must also plan their presentation methods. Good interpersonal communication skills count when it comes to making effective sales presentations. However, today's media-rich and cluttered communications environment presents many new challenges for sales presenters. Today's information-overloaded customers demand richer presentation experiences. And presenters now face multiple distractions during presentations from mobile phones, text messages, and mobile Internet devices. Salespeople must deliver their messages in more engaging and compelling ways.

Thus, today's salespeople are employing advanced presentation technologies that allow for full multimedia presentations to only one or a few people. The venerable old flip chart has been replaced with sophisticated presentation software, online presentation technologies, interactive whiteboards, and handheld computers and projectors.

Handling Objections

Customers almost always have objections during the presentation or when asked to place an order. The problem can be either logical or psychological, and objections are often unspoken. In **handling objections**, the salesperson should use a positive approach, seek out hidden objections, ask the buyer to clarify any objections, take objections as opportunities to provide more information, and turn the objections into reasons for buying. Every salesperson needs training in the skills of handling objections.

Handling objections
A salesperson seeks out, clarifies, and overcomes any customer objections to buying.

Closing
A salesperson asks the customer for an order.

Closing

After handling the prospect's objections, the salesperson now tries to close the sale. Some salespeople do not get around to **closing** or do not handle it well. They may lack confidence, feel guilty about asking for the order, or fail to recognize the right moment to close the sale. Salespeople should know how to recognize closing signals from the buyer, including physical actions, comments, and questions. For example, the customer might sit forward and nod approvingly or ask about prices and credit terms.

Salespeople can use one of several closing techniques. They can ask for the order, review points of agreement, offer to help write up the order, ask whether the buyer wants this model or that one, or note that the buyer will lose out if the order is not placed now. The salesperson may offer the buyer special reasons to close, such as a lower price or an extra quantity at no charge.

Follow-up
A salesperson follows up after the sale to ensure customer satisfaction and repeat business.

Follow-Up

The last step in the selling process—**follow-up**—is necessary if the salesperson wants to ensure customer satisfaction and repeat business. Right after closing, the salesperson should complete any details on delivery time, purchase terms, and other matters. The salesperson then should schedule a follow-up call when the initial order is received, to make sure there is proper installation, instruction, and servicing. This visit would reveal any problems, assure the buyer of the salesperson's interest, and reduce any buyer concerns that might have arisen since the sale.

Personal Selling and Customer Relationship Management

The steps in the selling process as just described are *transaction-oriented*—their aim is to help salespeople close a specific sale with a customer. But in most cases, the company is not simply seeking a sale: It has targeted a major customer that it would like to win and keep. The company would like to show that it has the capabilities to serve the customer over the long haul in a mutually profitable *relationship*. The sales force usually plays an important role in building and managing profitable customer relationships.

❯ Salespeople should be confident about closing the order, and follow up with the customer to ensure customer satisfaction and repeat business.

Thus, the selling process must be understood in the context of building and maintaining profitable customer relationships. Moreover, buyers are increasingly moving through the early stages of the buying process themselves, before engaging sellers. Salespeople must adapt their selling process to match the new buying process. That means discovering and engaging customers on a relationship basis than a transaction basis.

Successful sales organizations recognize that winning and keeping accounts requires more than making good products and directing sales force to close lots of sales. If the company wishes only to close sales and capture short-term business, it can do this by simply slashing its prices to meet or beat those of competitors. Instead, most companies want their salespeople to practice value selling—demonstrating and delivering superior customer value and capturing a return on that value that is fair for both the customer and the company. Value selling requires listening to customers, understanding their needs, and coordinating the company's efforts to create lasting relationships based on customer value.

Other companies, however, recognize that winning and keeping accounts requires more than making good products and directing the sales force to close lots of sales. It requires listening to customers, understanding their needs, and carefully coordinating the whole company's efforts to create customer value and to build lasting relationships.

Sales promotion
Short-term incentives to encourage the purchase or sale of a product or service.

Sales Promotion

Personal selling and advertising often work closely with another promotion tool, sales promotion. **Sales promotion** consists of short-term incentives to encourage purchase or sale of a product or service. Whereas advertising offers reasons to buy a product or service, sales promotion offers reasons to buy *now*.

Examples of sales promotion can be found everywhere. You may find a freestanding insert in the *Apply Daily* newspaper which contains a coupon offering HK$5 off a cup of cappuccino. The end of the aisle display in the Park n Shop supermarket tempts you with a wall of Coca-Cola cases at a much discounted price. When you shop at the Nova Computer Center opposite to the Taipei train station for an Asus notebook, you get a free carrying case and a memory stick with 1 GB memory. On a busy street in the old town of Shenzhen, you receive a promotion leaflet which offers you a dish of dim sum if you patronize a Cantonese restaurant nearby. Broadway, a renowned electronic appliance store in Hong Kong, offers you a special discount on TV sets if you pay with a Hang Seng Bank credit card. And when you check your email, a mailer from Amazon.com offers free shipping on your next purchase over $100.

Sales promotion – Short-term incentives such as discount coupons encourage the purchase or sale of a product or service. Basically, it offers reasons to buy now.

The Rapid Growth of Sales Promotion

Sales promotion tools are used by most organizations, including manufacturers, distributors, retailers, and not-for-profit institutions. They are targeted toward final buyers (*consumer promotions*), retailers and wholesalers (*trade promotions*), business customers (*business promotions*), and members of the sales force (*sales force promotions*). Today, in the average consumer packaged-goods company, sales promotion accounts for 60 percent of all marketing expenditures.[13]

Several factors have contributed to the rapid growth of sales promotion, particularly in consumer markets. First, inside the company, product managers face greater pressures to increase their current sales, and promotion is viewed as an effective short-run sales tool. Second, externally, the company faces more competition and competing brands are less differentiated. Increasingly, competitors are using sales promotion to help differentiate their offers. Third, advertising efficiency has declined because of rising costs, media clutter, and legal restraints. Finally, consumers have become more deal-oriented, and ever-larger retailers are demanding more deals from manufacturers. In the current economy, consumers are demanding lower prices and better deals. Sales promotions can help attract today's more thrift-oriented consumers.

Consumers are increasingly tuning out advertisement and promotions, weakening their ability to trigger immediate purchase. Manufacturers now have to search for ways to rise above the clutter.

The growing use of sales promotion has resulted in *promotion clutter*, similar to advertising clutter. Consumers are increasingly tuning out promotions, weakening their ability to trigger immediate purchase. Manufacturers are now searching for ways to rise above the clutter, such as offering larger coupon value, creating more dramatic point-of-purchase displays, or delivering promotions through digital media such as the Internet or mobile phones.

In developing a sales promotion program, a company must first set sales promotion objectives and then select the best tools for accomplishing these objectives.

Sales Promotion Objectives

Sales promotion objectives vary widely. Sellers may use *consumer promotions* to urge short-term customer buying or to enhance long-term customer relationships. Objectives for *trade promotions* include getting retailers to carry new items and more inventory, buy ahead, or advertise the company's products and give them more shelf space. For the *sales force*, objectives include getting more sales force support for current or new products or getting salespeople to sign up new accounts.

Sales promotions are usually used together with advertising, personal selling, or other promotion mix tools. Consumer promotions must usually be advertised and can add excitement and pulling power to ads. Trade and sales force promotions support the firm's personal selling process.

In general, rather than creating only short-term sales or temporary brand switching, sales promotions should help to reinforce the product's position and build long-term *customer relationships*. If properly designed, every sales promotion tool has the potential to build both short-term excitement and long-term consumer relationships. Increasingly, marketers are avoiding "quick fix," price-only promotions in favor of promotions designed to build brand equity.

Examples include all the "frequency marketing programs" and loyalty clubs that have mushroomed in recent years. Most hotels, supermarkets, and airlines now offer frequent-guest/buyer/flyer programs offering rewards to regular customers. For example, the Friendship Shopping City in Dalian, China, has a loyalty program that targets its wealthy customers. Members of the program are entitled to have a VIP smartcard which serves several functions. Cardholders may enjoy a special discount on almost all items in the store, and the smart card contains an RFID system which allows the store to identify members as soon as they enter. Using this system, salespersons are promptly alerted upon each member's entrance into the store and can then swiftly get themselves ready to approach them.

Major Sales Promotion Tools

Many tools can be used to accomplish sales promotion objectives. Descriptions of the main consumer, trade, and business promotion tools follow.

Consumer Promotion Tools

The main **consumer promotion tools** include:

- Samples
- Coupons
- Cash refunds

Consumer promotion tools
Sales promotion tools used to urge short-term customer buying or to enhance long-term customer relationships.

Sampling such as giving away these shampoo sachets is the most effective—but most expensive—way to introduce a new product or to create new excitement for an existing one.

- Price packs
- Premiums
- Advertising specialties
- Patronage rewards
- Point-of-purchase displays and demonstrations
- Contests, sweepstakes, and games

Samples are offers of a trial amount of a product. Sampling is the most effective—but most expensive—way to introduce a new product or to create new excitement for an existing one. Some samples are free; for others, the company charges a small amount to offset its cost. The sample might be delivered door to door, sent by mail, handed out in a store, attached to another product, or featured in an ad. Sometimes, samples are combined into sample packs, which can then be used to promote other products and services. Sampling can be a powerful promotional tool. For example, Procter & Gamble gives away samples to potential consumers. Its road shows in the rural market in China have been successful at tempting consumers to switch to P&G products by trying its samples.

Coupons are certificates that give buyers a saving when they purchase specified products. Coupons can promote early trial of a new brand or stimulate sales of a mature brand. However, as a result of coupon clutter, redemption rates have been declining in recent years. Thus, most major consumer goods companies are issuing fewer coupons and targeting them more carefully.

Marketers are also cultivating new outlets for distributing coupons, such as supermarket shelf dispensers, electronic point-of-sale coupon printers, and online and mobile coupon programs. Digital coupons represent the fastest-growing coupon segment. It can be individually targeted and personalized in ways that print coupons can't. As mobile phones become an essential item that people can't live without, businesses are increasingly eyeing them as prime real estate for coupons, offers, and other marketing messages.

› New forms of coupons – With the increase in the number of smartphone users, mobile phone coupons are gaining popularity.

Cash refunds (or *rebates*) are like coupons except that the price reduction occurs after the purchase rather than at the retail outlet. The consumer sends a "proof of purchase" to the manufacturer, who then refunds part of the purchase price by mail.

Price packs (also called *cents-off deals*) offer consumers savings off the regular price of a product. The producer marks the reduced prices directly on the label or package. Price packs can be single packages sold at a reduced price (such as two for the price of one) or two related products banded together (such as a toothbrush and toothpaste). Price packs are very effective—even more so than coupons—in stimulating short-term sales.

Premiums are goods offered either free or at low cost as an incentive to buy a product, ranging from toys included with kids' products to phone cards and DVDs. A premium may come inside the package (in-pack), outside the package (on-pack), or through the mail. McDonald's offers a variety of premiums in its Happy Meals including Hello Kitty toys that have seen many Asian customers queuing up over night to get them, or stalling McDonald's online microsite because of heavy traffic.

Advertising specialties, also called *promotional products*, are useful articles imprinted with an advertiser's name, logo, or message that are given as gifts to consumers. Typical items include T-shirts and other apparel, pens, coffee mugs, calendars, key rings, mouse pads, matches, tote bags, coolers, golf balls, and caps. Such items can be very effective.

Point-of-purchase (POP) promotions include displays and demonstrations that take place at the point of sale. Think of your last visit to the local Wellcome, 7-Eleven, and Family Mart. Chances are good that you were tripping over aisle displays, promotional signs, "shelf talkers," or demonstrators offering free tastes

❯ Advertising specialties, also called promotional products, are useful articles imprinted with an advertiser's name, logo, or message that are given as gifts to consumers. They typically include items such as bumper stickers, stationary, mugs, keychains, and T-shirts.

of featured food products. Unfortunately, many retailers do not like to handle the hundreds of displays, signs, and posters they receive from manufacturers each year. Manufacturers have responded by offering better POP materials, offering to set them up, and tying them in with television, print, or online messages.

Contests, sweepstakes, and games give consumers the chance to win something, such as cash, trips, or goods, by luck or through extra effort (see **Real Marketing 16.2**). A *contest* calls for consumers to submit an entry—a jingle, guess, suggestion—to be judged by a panel that will select the best entries. A *sweepstakes* calls for consumers to submit their names for a drawing. A *game* presents consumers with something—bingo numbers, missing letters—every time they buy, which may help them win a prize. A sales contest urges dealers or the sales force to increase their efforts, with prizes going to the top performers.

Event marketing (or event sponsorships) Creating a brand-marketing event or serving as a sole or participating sponsor of events created by others.

Finally, marketers can promote their brands through **event marketing** (or **event sponsorships**). They can create their own brand-marketing events or serve as sole or participating sponsors of events created by others. The events might include anything from mobile brand tours to festivals, reunions, marathons, concerts, or other sponsored gatherings. Event marketing is huge, and it may be the fastest-growing area of promotion, especially in tough economic times.

Event marketing can provide a less costly alternative to expensive TV commercials. When it comes to event marketing, sports are in a league of their own.

Singapore Airlines (SIA) – SIA is the title sponsor to the Singapore Grand Prix. It sees this event as a way not only to reach out to markets with a strong F1 culture such as Europe and Australia but also to developing F1 fan bases such as China, India, and Indonesia. The two-year sponsorship is believed to cost about $10 million. Besides offering F1 package deals including air ticket, hotel stay, and the race ticket, SIA also held a carnival—a free event to make motorsport accessible to the public. Fans are allowed into the Pit Building where they have fun on F1 simulators and see a supercar parade and stunt driving.

Trade Promotion Tools

Manufacturers direct more sales promotion dollars toward retailers and wholesalers (78 percent) than to final consumers (22 percent).[14] **Trade promotion tools** can persuade resellers to carry a brand, give it shelf space, promote it in advertising, and push it to consumers. Shelf space is so scarce these days that manufacturers often have to offer price-offs, allowances, buy-back guarantees, or free goods to retailers and wholesalers to get products on the shelf and, once there, to keep them on it.

Trade promotion tools
Sales promotion tools used to persuade resellers to carry a brand, give it shelf space, promote it in advertising, and push it to consumers.

Manufacturers use several trade promotion tools. Many of the tools used for consumer promotions—contests, premiums, displays—can also be used as trade promotions. Or the manufacturer may offer a straight *discount* off the list price on each case purchased during a stated period of time (also called a *price-off*, *off-invoice*, or *off-list*). Manufacturers also may offer an *allowance* (usually so much off per case) in return for the retailer's agreement to feature the manufacturer's products in some way. An advertising allowance compensates retailers for advertising the product. A display allowance compensates them for using special displays.

Manufacturers may offer *free goods*, which are extra cases of merchandise, to resellers who buy a certain quantity or who feature a certain flavor or size. They may offer *push money*—cash or gifts to dealers or their sales forces to "push" the manufacturer's goods. Manufacturers may give retailers free *specialty advertising items* that carry the company's name, such as pens, pencils, calendars, paperweights, matchbooks, memo pads, and yardsticks.

Business Promotion Tools

Companies spend billions of dollars each year on promotion to industrial customers. **Business promotion tools** are used to generate business leads, stimulate purchases, reward customers, and motivate salespeople. Business promotion includes many of the same tools used for consumer or trade promotions. Here, we focus on two additional major business promotion tools—conventions and trade shows, and sales contests.

Business promotion tools
Sales promotion tools used to generate business leads, stimulate purchases, reward customers, and motivate salespeople.

Many companies and trade associations organize *conventions and trade shows* to promote their products. Firms selling to the industry show their products at the trade show. Vendors receive many benefits, such as opportunities to find new sales leads, contact customers, introduce new products, meet new customers, sell more to present customers, and educate customers with publications and audiovisual materials. Trade shows also help companies reach many prospects not reached through their sales forces.

Some trade shows are huge. Each year, the Hong Kong Trade Development Council organises about 30 world-class international trade fairs in Hong Kong attracting on average some 400,000 professional visitors.

Some companies such as P&G may combine several components of sales promotion in a road show so as to create a large impact on a group of targeted audience.

A *sales contest* is a contest for salespeople or dealers to motivate them to increase their sales performance over a given period. Sales contests motivate and recognize good company performers, who may receive trips, cash prizes, or other gifts. Some companies award points for performance, which the recipient can turn in for any of a variety of prizes. Sales contests work best when they are tied to measurable and achievable sales objectives (such as finding new accounts, reviving old accounts, or increasing account profitability).

❯ Some trade shows are huge. Some can attract thousands of exhibitors and hundreds of thousands of visitors.

Real Marketing 16.2

Dentsu Inc.'s iButterfly: A Mobile Advertising Phenomenon

The development of technology applications for mobile phones has been very fast in recent years. For example, augmented reality is the technology which allows direct or indirect views of the real world in sound or graphics through elements created using electronic devices; location-based service is a mobile network information service based on the geographical position of the mobile device; and motion sensor function refers to the technology through which motion can be detected by electronic devices that measure changes in the speed or vector of an object in an environment.

Company Background

Dentsu (http://www.dentsu.com) is an international company originally established in 1901 under the name of Japan Advertising Ltd, renamed Dentsu Advertising Ltd in 1955, and then Dentsu Inc. in 1978. It has maintained the largest share in the Japanese advertising market, which accounts for 10.1 percent of the global market, for more than 50 years. There are two reasons for Dentsu's leading position globally. First, it has a diverse client base. Second, it has high buying power in all major mass media. As such, it handles advertising campaigns for many large companies and attracts major global clients who would like to partner with Dentsu in the Japanese market.

Not only does Dentsu outperform its competitors in all mass media in Japan, including advertising on television, it also leads the domestic market with its strategic preparations in high-growth media categories such as the Internet.

The Award-Winning iButterfly

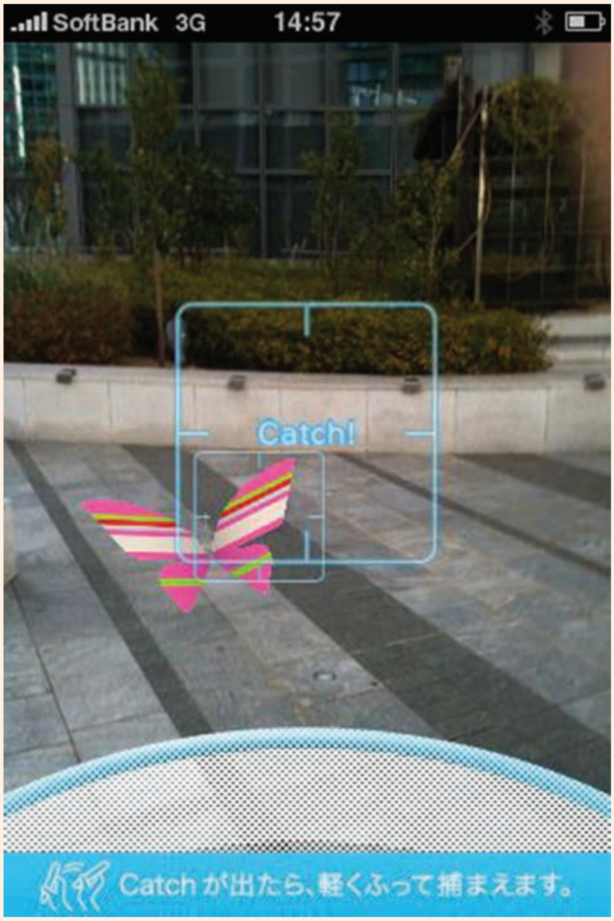
Dentsu launched iButterfly for iPhone users in January 2010. It won an Award for Excellence in the Marketing Category at the 9th Mobile Ad Awards in Japan. iButterfly applies the mobile phone technologies of augmented reality, location-based service and motion sensor function. iPhone users can look for virtual butterflies in specific locations using Google maps. When a user finds a butterfly in the target frame of his/her mobile and the word "capture" appears, he/she can capture the butterfly by simply swinging the iPhone lightly. After a butterfly has successfully been caught, it will be shown in the user's collection. Different types of butterflies provide different coupons for different stores. The user may also choose to share the butterflies they captured, with friends, using Bluetooth.

Dentsu started introducing iButterfly outside Japan in 2011. For example, Media Palette Hong Kong, a media arm of Dentsu, cooperated with Pacific Coffee, adidas, and Page One in May 2011 to create a series of specific butterflies for each company. For Pacific Coffee, a user can win a free drink upgrade by capturing any one of the six types of butterfly. If a user captures all of the six original butterflies, including a special butterfly—"Duchess of Centi"—he/she could receive a free high tea set. If a user captures all of the six original butterflies, including another special butterfly— "Duke of Centi"—he/she could win 100 cups of free tall-sized coffee.

For adidas, if a user captures three different colors of butterfly, he/she may receive a 10 percent discount when purchasing CLIMACOOL running footwear. If the user captures five different colors of butterflies and one special type of butterfly, he/she may receive an 20 percent discount when purchasing CLIMACOOL running footwear. If the user captures seven different colors of butterflies and another special type of butterfly, he/she may receive an $800 adidas cash coupon.

For Page One, if a user captures any one of the 10 Page One butterflies, he/she will be offered a 10 percent discount on any book purchased at Page One.

iButterfly provides an open platform for different client companies, generating a sort of synergy effect. For example, adidas users can catch butterflies from Page One or Pacific Coffee. In this way, each client company can leverage on each other's target customer group. Moreover, Dentsu requests that client companies promote the use of iButterfly in their marketing efforts, which promote not only their own campaigns, but also increase downloads and awareness for the iButterfly app.



The Competing 7-iCollection

Dentsu is not the first to introduce the concept of augmented reality in apps. In Hong Kong, 7-Eleven, one of the world's leading convenience store chains, was the first chain store to introduce an app with a concept similar to iButterfly. In September 2010, 7-Eleven launched the 7-iCollection, which is very similar to iButterfly. An iPhone user can try to capture nine types of virtual Paddington Bears near 7-Eleven stores. The users may also share these Paddington Bears with friends through Bluetooth. After a user has collected all seven types of bear, he/she may exchange them for a free real Paddington Bear.

Sources

iButterfly, accessed September 2011 at http://ibutterfly.hk/eng/index/html; Media Palette, accessed September 2011 at http:www.dentsumedia-network.com.

Developing the Sales Promotion Program

Beyond selecting the types of promotions to use, marketers must make several other decisions in designing the full sales promotion program. First, they must decide on the *size of the incentive*. A certain minimum incentive is necessary if the promotion is to succeed; a larger incentive will produce more sales response. The marketer also must set *conditions for participation*. Incentives might be offered to everyone or only to select groups.

Marketers must decide how to *promote and distribute the promotion* program itself. A $2-off coupon could be given out in a package, at the store, via the Internet, or in an advertisement. Each distribution method involves a different level of reach and cost. Increasingly, marketers are blending several media formats into a total campaign concept. The *length of the promotion* is also important. If the sales promotion period is too short, many prospects (who may not be buying during that time) will miss it. If the promotion runs too long, the deal will lose some of its “act now” force.

Evaluation is also very important. Many companies fail to evaluate their sales promotion programs, and others evaluate them only superficially. Yet marketers should work to measure the returns on their sales promotion investments, just as they should seek to assess the returns on other marketing activities. The most common evaluation method is to compare sales before, during, and after a promotion. Marketers should ask: Did the promotion attract new customers or more purchasing from current customers? Can we hold onto these new customers and purchases? Will the long-run customer relationship and sales gains from the promotion justify its costs?

Clearly, sales promotion plays an important role in the total promotion mix. To use it well, the marketer must define the sales promotion objectives, select the best tools, design the sales promotion program, implement the program, and evaluate the results. Moreover, sales promotion must be coordinated carefully with other promotion mix elements within the overall integrated marketing communications program.

Reviewing Objectives and Key Terms

This chapter is the third of four chapters covering the final marketing mix element—promotion. The previous two chapters dealt with overall integrated marketing communications and with advertising and public relations. This one investigated personal selling and sales promotion. Personal selling is the interpersonal arm of the communications mix. Sales promotion consists of short-term incentives to encourage the purchase or sale of a product or service.

OBJECTIVE 1 Discuss the role of a company's salespeople in creating value for customers and building customer relationships. (pp. 523–525)

Most companies use salespeople, and many companies assign them an important role in the marketing mix. For companies selling business products, the firm's sales force works directly with customers. Often, the sales force is the customer's only direct contact with the company and therefore may be viewed by customers as representing the company itself. In contrast, for consumer-product companies that sell through intermediaries, consumers usually do not meet salespeople or even know about them. The sales force works behind the scenes, dealing with wholesalers and retailers to obtain their support and helping them become more effective in selling the firm's products.

As an element of the promotion mix, the sales force is very effective in achieving certain marketing objectives and carrying out such activities as prospecting, communicating, selling and servicing, and information gathering. But with companies becoming more market-oriented, a customer-focused sales force also works to produce both customer satisfaction and company profit. The sales force plays a key role in developing and managing profitable customer relationships.

OBJECTIVE 2 Identify and explain the six major sales force management steps. (pp. 525–539)

High sales force costs necessitate an effective sales management process consisting of six steps: designing sales force strategy and structure, recruiting and selecting, training, compensating, supervising, and evaluating salespeople and sales force performance.

In designing a sales force, sales management must address various issues, including what type of sales force structure will work best (territorial, product, customer, or complex structure), how large the sales force should be, who will be involved in the selling effort, and how its various salespeople and sales-support people will work together (inside or outside sales forces and team selling).

To hold down the high costs of hiring the wrong people, salespeople must be recruited and selected carefully. In recruiting salespeople, a company may look to the job duties and the characteristics of its most successful salespeople to suggest the traits it wants in its salespeople. It must then look for applicants through recommendations of current salespeople, employment agencies, classified ads, the Internet, and college recruitment/placement centers. In the selection process, the procedure may vary from a single informal interview to lengthy testing and interviewing.

After the selection process is complete, training programs familiarize new salespeople not only with the art of selling but also with the company's history, its products and policies, and the characteristics of its market and competitors.

The sales force compensation system helps to reward, motivate, and direct salespeople. In compensating salespeople, companies try to have an appealing plan, usually close to the going rate for the type of sales job and needed skills. In addition to compensation, all salespeople need supervision, and many need continuous encouragement because they must make many decisions and face many frustrations. Periodically, the company must evaluate their performance to help them do a better job. In evaluating salespeople, the company relies on getting regular information gathered through sales reports, personal observations, customers' letters and complaints, customer surveys, and conversations with other salespeople.

OBJECTIVE 3 Discuss the personal selling process, distinguishing between transaction-oriented marketing and relationship marketing. (pp. 539–542)

The art of selling involves a seven-step selling process: prospecting and qualifying, preapproach, approach, presentation and demonstration, handling objections, closing, and follow-up. These steps help marketers close a specific sale and, as such, are transaction-oriented. However, a seller's dealings with customers should be guided by the larger concept of relationship marketing. The company's sales force should help to orchestrate a whole-company effort to develop profitable long-term relationships with key customers based on superior customer value and satisfaction.

OBJECTIVE 4 Explain how sales promotion campaigns are developed and implemented. (pp. 542–551)

Sales promotion campaigns call for setting sales promotions objectives (in general, sales promotion should be *consumer relationship building*); selecting tools; and developing and implementing the sales promotion program by using *consumer promotion tools* (from coupons, refunds, premiums, and point-of-purchase promotions to contests, sweepstakes, and events), *trade promotion tools* (from discounts and allowances to free goods and push money), and *business promotion tools* (conventions, trade shows, and sales contests), as well as determining such things as the size of the incentive, the conditions for participation, how to promote and distribute the promotion package, and the length of the promotion. After this process is completed, the company must evaluate its sales promotion results.

Key Terms

OBJECTIVE 1
Personal selling (p 512)
Salesperson (p 513)

OBJECTIVE 2
Sales force management (p 514)
Territorial sales force structure (p 515)
Product sales force structure (p 515)
Customer (or market) sales force structure (p 515)
Outside sales force (or field sales force) (p 516)
Inside sales force (p 516)
Team selling (p 517)
Sales quota (p 521)

OBJECTIVE 3
Social selling (p 524)
Selling process (p 525)
Prospecting (p 526)
Preapproach (p 526)
Approach (p 526)
Presentation (p 527)
Handling objections (p 527)
Closing (p 527)
Follow-up (p 528)

OBJECTIVE 4
Sales promotion (p 528)
Consumer promotion tools (or event sponsorships) (p 530)
Event marketing tools (p 532)
Trade promotions tools (p 533)
Business promotion tools (p 533)

Discussing the Concepts

1. Discuss the role of personal selling in the promotion mix. In what situations is it more effective than advertising?
(AACSB: Communication; Reflective Thinking)
2. Compare and contrast the three sales force structures outlined in the chapter. Which structure is most effective?
(AACSB: Communication; Reflective Thinking)
3. What role does an inside sales force play in an organization? (AACSB: Communication)

4. Define *sales promotion* and discuss its objectives. (AACSB: Communication)
5. Name and describe the types of consumer promotions.
(AACSB: Communication; Reflective Thinking)
6. Name and describe the types of trade sales promotions. (AACSB: Communication)

Applying the Concepts

1. Although many manufacturers maintain their own sales forces, many use the services of sales agents in the channel of distribution. Discuss the pros and cons of using sales agents compared to a company sales force. Who will best fulfill the channel functions for the manufacturer?
(AACSB: Communication; Reflective Thinking)
2. Select a product or service and role-play a sales call—from the approach to the close—with another student. Have one member of the team act as the salesperson with the other member acting as the customer, raising at least three objections. Select another product or service and perform this exercise again with your roles reversed.
(AACSB: Communication; Reflective Thinking)
3. Design a sales promotion campaign for your local animal shelter with the goal of increasing pet adoption. Use at least three types of consumer promotions and explain the decisions regarding this campaign.
(AACSB: Communication; Reflective Thinking)

Focus on Technology

Want to improve your business's operations? Hold a contest and get some of the best and brightest minds in the world working on it! That's what Netflix did—and it wasn't your everyday contest, either. Netflix, the video streaming and DVD rental company, held a three-year, $1 million contest with the goal of improving its movie-recommendation system by 10 percent. The company wanted to improve its system for predicting what customers might like based on their ratings of previous movies rented or viewed. The contest garnered more than 51,000 contestants from almost 200 countries. The contest attracted entries from scientists, researchers, and engineers, and the winning team consisted of one-time competitors who joined forces to submit the best solution within a few minutes of the contest's deadline. The sequel—Netflix Prize 2—aimed to improve the movie-recommendation system for Netflix customers who do not regularly rate movies on Netflix, but this contest hit a legal roadblock and was discontinued.

1. Using Google, search for "Netflix Prize" to learn about this contest and the subsequent troubles Netflix experienced with Netflix Prize 2. Write a brief report on what you find and argue for or against cancellation of the second contest.
(AACSB: Communication; Use of IT; Reflective Thinking)
2. What other contests or sweepstakes has Netflix sponsored? Discuss the rules of the promotion and winners, if the promotion is complete.
(AACSB: Communication; Reflective Thinking)

Focus on Ethics

Hank is a sales representative for a CRM software company and makes several cold calls each day prospecting for customers. He usually starts his call to a technology professional in a company by introducing himself and asking the person if he or she would take a few moments to participate in a survey on technology needs in companies.

After a few questions, however, it becomes obvious that Hank is trying to sell software solutions to the potential customer.

1. Is Hank being ethical? Discuss other sales tactics that might be unethical. (AACSB: Communication; Ethical Reasoning; Reflective Thinking)
2. What traits and behaviors should an ethical salesperson possess? What role does the sales manager play in ethical selling behavior?
(AACSB: Communication; Ethical Reasoning; Reflective Thinking)

Marketing & the Economy

Procter & Gamble

Historically, consumer goods companies fare well during hard economic times. Such items are relatively inexpensive to begin with, brand loyalty is strong, and no one wants to give up clean clothes and healthy teeth. But as the sluggish economy has lasted longer than anticipated, the rules are changing. Consumers remain more price-sensitive, even on small purchases. For P&G, it means that even brands such as Tide and Crest are experiencing fallout. To keep volume up, P&G has cut prices on existing products *and* introduced cheaper items. Although this may protect sales volume, both tactics result in thinner margins and lower profits—as much as 18 percent lower. And the new cheaper-item strategy may cause customers to trade down, eroding profits even more. P&G says it plans to raise prices in 2011. But the price-cutting cycle may be hard to stop. Not only do consumers get used to lower prices, but retailers also get into the habit of awarding shelf space to manufacturers who provide lower wholesale prices. There will likely always be manufacturers willing to meet such retailer demands, adding pressure on P&G to continue offering its premium brands at cheaper prices.

1. What can a P&G sales rep do, apart from product and pricing strategies, to boost sales?
2. What should P&G do to boost profits in these and future economic times?

Marketing by the Numbers

FireSpot Inc. is a manufacturer of drop-in household fireplaces sold primarily in the eastern United States. The company has its own sales force that does more than just sell products and services; it manages relationships with retail customers to enable them to better meet consumers' needs. FireSpot's sales reps visit customers several times per year—often for hours at a time. Thus, sales managers must ensure that they have enough salespeople to adequately deliver value to customers. Refer to Appendix 2 to answer the following questions.

1. Determine the number of salespeople FireSpot needs if it has 1,000 retail customer accounts that need to be called on five times per year. Each sales call lasts approximately 2.5 hours, and each sales rep has approximately 1,250 hours per year to devote to customers. (AACSB: Communication; Analytical Reasoning)
2. FireSpot wants to expand to the Midwest and western United States and intends to hire 10 new sales representatives to secure distribution for its products. Each sales rep earns a salary of $50,000 plus commission. Each retailer generates an average $50,000 in revenue for FireSpot. If FireSpot's contribution margin is 40 percent, what increase in sales will it need to break even on the increase in fixed costs to hire the new sales reps? How many new retail accounts must the company acquire to break even on this tactic? What average number of accounts must each new rep acquire? (AACSB: Communication; Analytical Reasoning)

Video Case

Nestlé Waters

Who sells more bottled water than any other company? It isn't Coca-Cola with its Dasani line. It isn't PepsiCo with its Aquafina line. Surprisingly, it's Nestlé. With brands like Arrowhead, Poland Spring, Ice Mountain, and Nestlé Pure Life, Nestlé Waters easily outsells its top competitors.

Nestlé Waters hasn't achieved market leadership simply by advertising to consumers. In fact, it does very little advertising. Nestlé Waters understands that for a product like bottled water, success is all about shelf space. The Nestlé Waters video illustrates how the brand's managers developed a sales force strategy that focuses on maximizing relationships with major retailers. Nestlé Waters has a unique approach to personal selling that has solidified its presence in the marketplace. After viewing the video featuring Nestlé Waters, answer the following questions about the company.

1. How is the sales force at Nestlé Waters structured?
2. Discuss Nestlé Waters' unique approach to personal selling. How does this affect the manner in which

the company carries out each step of the selling process?

3. How has Nestlé Waters' unique approach enabled it to maintain customer relationships?

Company Case

Coca Cola:
Asians Want to Share It

Coca-Cola's "Share a Coke" campaign began in Australia. In a groundbreaking move, its iconic logo was dropped from its cans and bottles, and in its place was a personalized name. The idea behind this massive campaign is to encourage youth to express their feelings and connect with one another, and more importantly, to connect with Coca-Cola and drink more Coke. The campaign has since been launched in more than 80 markets around the world with more than 400 million personalized cans and bottles.

While Western markets such as Australia, Europe, and the United States have consumer names like Zoe, such names are not common in Asia. In fact, there is a huge multitude of Asian names. As such, customization is even more pronounced. Thailand is the first Asian country to have their personalized names and expressions on the cans and bottles. More than 80 nicknames and 10 expressions such as Kon Naa-rak, Kon Jing-jai, and Kon Lor, were printed on its cans and bottles. As Thais are known to be happy and optimistic but reserved in expressing themselves especially when the feelings are complimentary or mixed with special emotions, Coke hoped that these personalized names and expressions will create opportunities for Thais to connect with and show appreciation for someone they admire by sharing Coke with them. The campaign was well received with over 5 million cans sold. While the overall sparkling drink market in Thailand grew by only 7 percent, Coca-Cola Thailand grew by 21 percent, capturing a market share of nearly 57 percent.

Coca-Cola then moved on to China. Not only were Chinese names different from those in the West or in Thailand, there were also localized expressions. In China, Coke's nicknames included popular Chinese phrases such as "Cool Dude," "Fans," and "Artistic Youth." In conjunction with Sina Weibo, China's largest microblog, it launched a four-day contest in which Weibo fans repost nicknames that catch their attention. Some 99 Weibo fans received the nickname of their choice.

The same idea continued as Coke introduced the campaign to the Philippines in 2014. Coke initially featured 250 of the most popular names in the Philippines but allowed Filipinos to vote online for the next 50 names to be added on the list. The initial names included Benj, Lito, and Maribel—typical Filipino names. In its campaign, Coke encouraged Filipinos to show gratitude for even small, everyday gestures that often go unnoticed such as how one's office colleague "Jen" makes work exciting, how one's barkada ("clique") serves as a second family, or how one's kuya ("brother") is always there to protect you. Again, the response has been nothing short of encouraging. Thousands of Facebook users took to taking pictures with their personalized bottles. Coke also allowed Facebook followers to personalize virtual bottles and share them with friends via Facebook, Tumblr, Twitter, and Instagram. Given the multitude of Filipino nicknames, Coke did want anyone to be left out. The Filipino campaign went further by having special electronic kiosks set up in select supermarkets in Manila and key provinces to allow customers customize their bottles for themselves.

By 2015, the Share a Coke campaign was launched in Singapore to celebrate the nation's 50th anniversary. This is a milestone year for the country and while Coke could have launched the campaign earlier, it did not. Instead, it used this as an opportunity to create something special and celebrate Singapore's unique identity and heritage while strengthening the bonds with the nation. As with other Asian countries that had launched the campaign, Singapore also had a set of popular terms of endearment, like Auntie, Uncle, Ah Boy, and Chiongster; it also had certain nicknames—Bestie, BFF, and Babe. More frequently used local expressions involving Singlish (localized English) including "Gam Siah," "Relak Lah," and "Chiong Ah" were also used. Through the social media, Singaporeans shared their stories, photos, and videos. They could also create their customized Coke cans at roadshows with every S$10 ($7.50) worth of Coca-Cola products.

Questions for Discussion

1. Assess the idea behind this promotional campaign in terms of increasing attention, enhancing attitude, campaign sustainability, and localization.
2. How well do you think this campaign appeals to youth? Why?
3. Do you think the costs warrant such customization?
4. If you were Pepsi Cola, what would you do in response to this campaign?

Sources

Kwanchai Rungfapaisarn, "Coke Launches Special Thailand Campaign with Nicknames Printed on Cans, Bottles," www.nationmultimedia.com, 25 September 2013; "Coke Launches 'Share a Coke' Campaign in Thailand," www.bangkok.travel, accessed on 1 May 2015; Adaline Lau, "Coca-Cola Kicks Off 'Share a Coke' Summer Campaign in China," www.clickz.com, 30 May 2013; "'Share a Coke' Philippines," www.lifestyle.inquirer.et, 20 August 2014; "Share a Coke Campaign Sizzles in the Philippines," www.marketing-interactive.com; and "#ShareaCokeSG Hits Local Shores as the Nation Celebrates #SG50," www.marketing-interactive.com.

Objective Outline

OBJECTIVE 1

Define direct marketing and discuss its benefits to customers and companies.

The New Direct Marketing Model (562)
Growth and Benefits of Direct Marketing (563–565)
Customer Databases and Direct Marketing (566)

OBJECTIVE 2

Identify and discuss the major forms of direct marketing.

Forms of Direct Marketing (566–571)

OBJECTIVE 3

Explain how companies have responded to the Internet and other powerful new technologies with online marketing strategies.

Online Marketing (572–577)

OBJECTIVE 4

Discuss how companies go about conducting online marketing to profitably deliver more value to customers.

Setting up an Online Marketing Presence (577–582)

OBJECTIVE 5

Overview the public policy and ethical issues presented by direct marketing.

Public Policy Issues in Direct Marketing (582–584)

Chapter 17

Direct, Online, Social Media, and Mobile Marketing

Previewing the Concepts

In the previous three chapters, you learned about communicating customer value through integrated marketing communications (IMC) and about four specific elements of the marketing communications mix—advertising, publicity, personal selling, and sales promotion. In this chapter, we examine direct marketing and its fastest-growing form: digital marketing (online, social media, and mobile marketing). Direct marketing can be viewed as more than just a communications tool. In many ways, it constitutes an overall marketing approach—a blend of communication and distribution channels all rolled into one. It has to be integrated with other elements of the promotion mix.

For starters, consider Gmarket and Auction. They are eBay's online retailing sites in Korea.

Gmarket and Auction: Borderless in Korea

Korea is a land of tech-savvy consumers, but have you ever wondered why you don't see eBay in Korea? Even then the online giant has been operating in Korea since 2001, and very successful at that. It acquired e-commerce companies Auction and Gmarket in 2001 and 2009 respectively. Both are ranked in the top three of Korea's online business. However, eBay refused to put its label on these sites. Instead, a localized strategy is adopted.

Korea is one of the top five online markets and is an important business market in eBay's portfolio. According to Devin Wenig, CEO of eBay Inc, its Korean business is the most advanced in enhancing customer experiences of any eBay businesses in the world. It is constantly asking "How do you solve that problem?" "How do you maintain the business model of being a marketplace that we love?" "How do consumers have confidence they are going to get great experience every time?" With ongoing innovation, Wenig estimates that Gmarket and Auction are about three years advanced in payments innovation and a year or two in shipping innovation.

Further evidence of its knack to enhance customer experience is its ability to recognize trends and opportunities. Gmarket, in keeping with its success in the online business, is hoping to replicate this success with its mobile shopping business. Korea has a very high penetration of high-end mobile phones. Recognizing that the mobile phones are likely to become a common platform for commerce, Gmarket was quick to launch Korea's first mobile shopping app.

Gmarket has partnered with Kakao Talk to send instant messages to its customers for quicker orders and shipping information. . . . Its mobile business has registered growth of 30 percent annually.

"Virtual Stores" were set up on subway malls. These pop-up stores have specific themes. One store specializing in fashion items opened in Myeongdong subway station, while screen doors at 14 subway stations became marketplaces for Chuseok holiday shopping. Photographs of merchandise, which come with QR codes, are displayed. Instead of idling around while waiting for their train to arrive, consumers can "shop" at these virtual stores.

All that Gmarket users needed to do was to wave their mobile phones over the QR codes. Their mobile phones scan the data and make the purchase. Customers can order their purchases online and have these delivered to whatever location they choose.

Gmarket has also partnered with mobile messenger Kakao Talk to send instant messages to its customers for quicker orders and shipping information. Since its launch, its mobile business has registered growth of 30 percent annually, and accounts for 9 percent of its total sales. Auction, the other online site, refurbished its Web site and mobile app to lure new customers and offer a more convenient and creative shopping experience.

Another booming trend is overseas purchases. In Korea, direct purchases through overseas online shopping sites increased by 50–60 percent from 2013 to 2014. This has attracted the attention of Amazon and Alibaba, China's biggest online commerce company to enter Korea. Also entering the fray are overseas small and medium shopping sites such as MIC JAPAN, a Japanese online drugstore.

Gmarket is unfazed by the competition. It recognizes itself as cross-border marketplace, selling all merchandise to all consumers everywhere all the time. And like Amazon and Alibaba, it has also ventured overseas. In Singapore, it has Qoo10, selling over 2,000 items at great discount. Retailers show the original and sale price so that shoppers know that they are getting a good deal. Additionally, shipping is often free.[1]

Many marketing and promotion tools are developed in the context of *mass marketing*: targeting broad markets with standardized messages and offers distributed through intermediaries. Today, however, with the trend toward more narrowly targeted marketing, many companies are adopting *direct marketing*, either as a primary marketing approach or as a supplement to other approaches; as well as its fastest-growing form—digital marketing using online, social media, and mobile marketing channels.

Direct and Digital Marketing

Direct and digital marketing consists of direct connections with carefully targeted individual consumers, often on a one-to-one, interactive basis. Using detailed databases, they tailor their marketing offers and communications to the needs of narrowly defined segments or even individual buyers.

Beyond brand and relationship building, direct marketers usually seek a direct, immediate, and measurable consumer response. For example, Amazon.com interacts directly with customers on its Web site to help them discover and buy almost anything and everything on the Internet, with only a few clicks of the mouse button.

Direct and digital marketing
Direct connections with carefully targeted individual consumers, often on a one-to-one, interactive basis.

The New Direct Marketing Model

Early direct marketers—catalog companies, direct mailers, and telemarketers—gathered customer names and sold goods mainly by mail and telephone. Today, however, with rapid advances in database technologies and new marketing media—especially the Internet and mobile phones—direct marketing has undergone a dramatic transformation.

In previous chapters, we've discussed direct marketing as direct distribution—marketing channels that contain no intermediaries. We also included direct marketing as one element of the promotion mix—an approach for communicating directly with consumers. In actuality, direct marketing is both these things.

Most companies still use direct marketing as a supplementary channel or medium for marketing their goods and messages. Thus, Lexus mostly markets through mass-media advertising and its high-quality dealer network but also supplements these channels with direct marketing. Its direct marketing includes materials mailed directly to prospective buyers and a Web page (www.lexus.com) that provides consumers with information about various models, competitive comparisons, financing, and dealer locations. Similarly, some department stores sell the majority of their merchandise off their store shelves but also sell through direct mail and online catalogs.

However, for some companies, direct and digital marketing are more than just supplementary channels or media. They constitute a complete model for doing sbusiness. Firms employing this new *direct model* use it as the *only* approach. Companies such as Amazon.com and eBay have built their entire approach to the marketplace around direct marketing.

› Direct marketing – Companies such as eBay have built their entire approach around direct marketing. For example, personalized customer notifications via email will alert customers to products they might be interested in.

Rapid Growth and Benefits of Direct and Digital Marketing

Direct marketing has become a rapidly-growing form of marketing. Direct marketing continues to become more Internet-based and digital direct-marketing is claiming a surging share of marketing spending and sales. Whether employed as a complete business model or as a supplement to a broader integrated marketing mix, direct and digital marketing brings many benefits to both buyers and sellers (see **Figure 17.1** and **Figure 17.2** respectively).

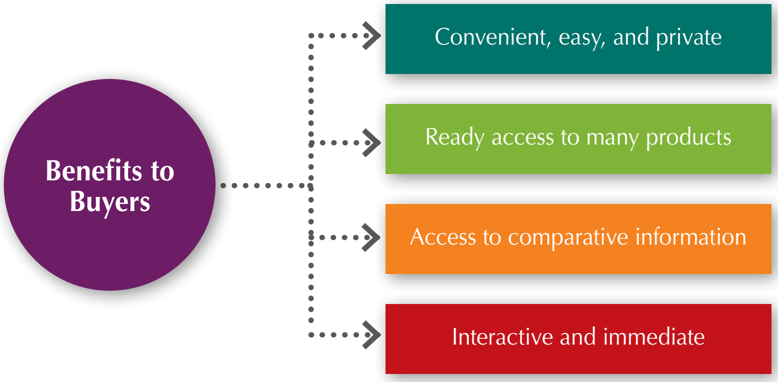


FIGURE 17.1
Benefits of direct marketing to buyers

Benefits to Buyers

For buyers, direct and digital marketing are convenient, easy, and private. They give buyers anywhere, anytime access to an almost unlimited assortment of goods and a wealth of product and buying information. For example, the Amazon.com site offers more information than most of us can digest, ranging from top 10 product lists, extensive product descriptions, and expert and user product reviews to recommendations based on customers' previous purchases.

Benefits to Sellers

For sellers, direct marketing is a powerful tool for building customer relationships. Using database marketing, marketers can target small groups or individual consumers and promote their offers through personalized communications. Because of the one-to-one nature of direct marketing, companies can interact with customers by phone or online, learn more about their needs, and tailor products and services to specific customer tastes. In turn, customers can ask questions and volunteer feedback.

Sumitomo Mitsui Banking Corporation developed its Internet banking arm in the form of the Japan Net Bank. Its system can copy transaction data from tellers and customers' responses from campaigns, and automatically collects the information using push technology so that market trends can be forecast as soon as possible. Thus, marketing results can be ascertained at a glance from the movement of the teller's transaction. From this same system, customer information analysis and segmentation can be easily carried out. Based on the results, different product and service information can be provided for each customer at the company's Web site. Behavioral analysis can also be done for each customer by time sequence through Web log mining, which tracks and analyzes customer "click streams" on the site. Besides such quick feedback, Japan Net Bank also offers "my m@il," a service that notifies customers to receive transaction details to a designated email address. A customer can be notified when his salary has been deposited, when a bank transfer has been completed, or when there are insufficient funds to cover an automatic debit for utility bill payment.[2]

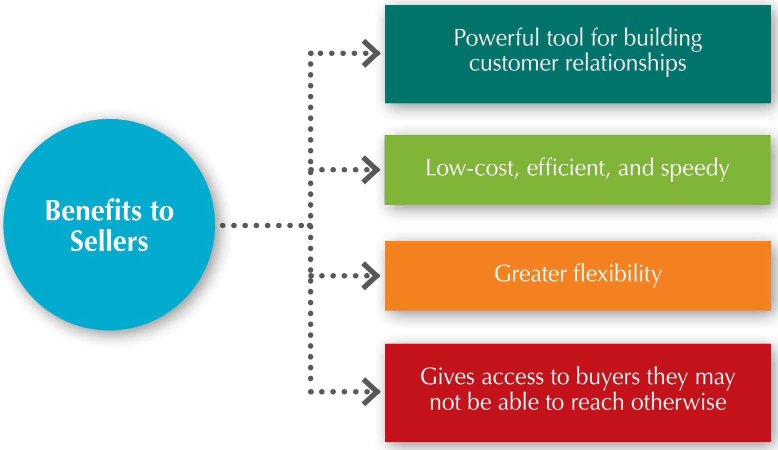


FIGURE 17.2
Benefits of direct marketing to sellers

Direct marketing also offers sellers a low-cost, efficient, speedy alternative for reaching their markets. Lower-cost-per-contact media—such as telemarketing, direct mail, and company Web sites—often prove more cost effective. Similarly, online direct marketing results in lower costs, improved efficiencies, and speedier handling of channel and logistics functions, such as order processing, inventory handling, and delivery.

> **Japan Net Bank** eliminates the need for physical branches by using online banking. This cost saving allows the bank to provide services to customers with low service charges and high interest rates on deposits. On its opening day, it had 5,000 account applications, which increased to 300,000 in just seven months. Its strategy of using the Internet to minimize costs strikes well with customers who are sensitive to interest rates. Japan Net Bank's interest rates on deposits are about twice those offered by conventional financial institutions. There are no service charges for the first three cash transactions at its ATMs.

Direct marketing can also offer greater flexibility. It allows marketers to make ongoing adjustments to prices and programs, or to make immediate and timely announcements and offers. For example, low-cost airlines such as Tiger Airways and AirAsia take advantage of the flexibility and immediacy of the Web to share low-fare offers directly with customers.

Finally, direct marketing gives sellers access to buyers that they will not be able to reach through other channels. Smaller firms can mail catalogs to customers outside their local markets. Internet marketing is a truly global medium that allows buyers and sellers to click from one country to another in seconds. An Internet surfer in Hong Kong or Kuala Lumpur can access a foreign online company as easily as someone living in America. Even small marketers find that they have ready access to global markets. Local markets can similarly be expanded as this Japanese example illustrates:

Budget airlines use the Web to promote their low fares because the Web offers flexibility and immediacy.

Lawson – Japanese convenience store chain Lawson has a network of electronic shopping kiosks called Loppi. A typical Lawson convenience store carries about 2,800 grocery items. However, Loppi terminals installed in all of Lawson's 7,000-odd stores enable shoppers to select from nearly 3,000 items, including tickets to Tokyo Disney Resort, music CDs, videos, game software, cosmetics and fashion accessories, and PCs and peripherals. Whereas Lawson previously sold fresh flowers only in May, prior to Mother's Day, flower sales continue all year round thanks to Loppi. Lawson plans to develop an Internet-based extension, a Web site tentatively called Lawson Digital Station, to integrate its Loppi touch-screen terminals. Users who order items through this Web site can visit any of Lawson's 24-hour stores to pick up their purchases. Lawson expects the new Internet shopping site to increase sales of its normal convenience store items through purchases by customers visiting its stores to pick up their Internet orders.[3]

Access to buyers – Lawson, Japan's second-largest convenience store, uses an electronic shopping network to expand the range of items that can be carried in a limited retail space, thereby generating more sales.

Forms of Direct and Digital Marketing

The major forms of direct and digital marketing, as shown in **Figure 17.3**, include traditional tools such as personal selling, direct-mail marketing, catalog marketing, telephone marketing, direct-response television marketing, kiosk marketing, and digital tools such as social media marketing, mobile marketing, and online marketing. Here, we examine the other direct marketing forms.

FIGURE 17.3
Forms of direct and digital marketing

Digital and Social Media Marketing

Today, thanks to a wealth of new digital technologies, direct marketers can reach and interact with consumers just about anywhere, anytime, about almost anything.

Here, we look into several exciting new digital direct marketing technologies: mobile phone marketing, online marketing, and social media marketing.

Mobile Marketing

Mobile marketing features marketing messages, promotions, and other marketing content delivered to on-the-go consumers through their smartphones. A growing number of consumers, especially younger ones, are using their mobile phones as a "third screen" for text messaging, surfing the Web, watching downloaded videos and shows, and checking email. Mobile phones allow "marketers to reach consumers anytime, anywhere, on a device they love."[4]

Mobile marketing
Marketing messages, promotions, and other content delivered to on-the-go consumers through mobile phones, smartphones, tablets, and other mobile devices.

Mobile phones and wireless devices have become the hottest frontier for big brands, especially since they can be a handy shopping companion. It can provide on-the-go product information, price comparisons, advice and reviews from other consumers, and access to instant deals and digital coupons. These mobile devices provide a rich platform for engaging consumers more deeply as they move through the buying process with tools ranging from mobile ads, coupons, and texts to apps and mobile Web sites (see **Real Marketing 17.1**).

In Japan, people are regularly downloading wallpapers and movie trailers, and using the global positioning system to navigate Tokyo's labyrinth of streets. They also use mobile phones to buy a can of Coke from high-tech vending machines, receive e-coupons from neighborhood stores, and even have their fortunes told. Digital coupons are taking off, as are GPS-based promotions used by retailers to target people near their stores.

Japanese direct marketers are experimenting with new ways to use the mobile devices for brand building. Nestlé, for example, tried out Quick Response (QR) codes, which can be scanned like digital bar codes. QR codes on print and outdoor ads can be read by mobile phone cameras, which redirect the user's phone to a designated mobile URL site. Nestlé used QR codes in a campaign to launch a canned drink called Nescafé Shake. It promoted Shake with two 15-minute short films that humorously communicated a sense of fun around the act of "shaking," with a story about a slacker kid who winds up with a dog's wagging tail on his behind. A QR code on promotional materials led mobile phone users to a mobile site where they could download the film as well as its original music as songs or ringtones. In the first three weeks after Nestlé's "Nonta's Tail" film debuted, 120,000 people visited the mobile site and another 550,000 watched the film on the Internet.[5]

With the increasing use of smart mobile phones, Quick Response (QR) codes are used for brand building.

As with other forms of direct marketing, however, companies must use mobile marketing responsibly or risk angering already ad-weary consumers. Most people don't want to be interrupted regularly by advertising, so marketers must be smart about how they engage people on mobiles. The key is to provide genuinely useful information and offers that will make consumers want to engage. Marketers also target mobile ads on an opt-in-only basis.

Real Marketing 17.1

Mobile Marketing:
Smartphones Are Changing How People Live—and How They Buy

Armed only with a smartphone or other mobile device, you can learn, do, or buy almost anything these days, from anywhere, and at any time. Tide's Stain Brain app helps you find ways to remove stains while out and about, and a Charmin-sponsored Sit or Squat app directs you to nearby public restrooms. REI's The Snow Report app gives you ski slope information for locations throughout the United States and Canada, such as snow conditions and the number of open lifts. The app even helps you share resort information with friends via Twitter and Facebook, and it links you to "Shop REI". And with MasterCard's PayPass app, you can pay instantly and securely with your phone at any participating retailer—just "tap, pay, and be on your way."

Welcome to the world of mobile marketing. Today's smartphones and other mobile devices are changing how people live, becoming indispensable hubs for communication, information, and entertainment. They are also revolutionizing the way people shop and buy, giving marketers new opportunities to engage customers in more effective and satisfying ways.

Marketers are responding to the huge growth in mobile access and use. Mobile ad spending jumped 105 percent last year and is expected to triple in the next three years. And the mobile app market has outright exploded. Just a few years ago, Apple's App Store had a then-astounding 10,000 apps. But since then, Apple's App Store and Android's Google Play had topped one million apps each. Mobile has become today's brave new marketing frontier, especially for brands courting younger consumers. Mobile devices are very personal, ever-present, and always on. That makes them an ideal medium for obtaining quick responses to individualized, time-sensitive offers.

Some marketers are still just warming up to mobile, and most are still learning how to use it effectively. Successful mobile marketing goes beyond just giving people a coupon and a link to buy. Instead, it enhances brand engagement and creates a "frictionless" buying experience. For example, with Amazon's mobile app—thanks to "1-click" purchasing, Prime membership, and other features—customers located anywhere, anytime can have products delivered to practically any location in less than 24 hours with nothing more than a smartphone, a simple search or scan, and the click of a button.

Consumers have come to expect such frictionless mobile buying experiences from marketing giants like Amazon. But with recent rapid advances in mobile capabilities, from location-based technologies to mobile payment systems, more and more companies are becoming the Amazons of their industries. Consider mobile app-based car dispatch service Uber.

> For anyone who travels or grabs a cab regularly, Uber is the next-best thing to Star Trek's "Beam me up Scotty." Imagine finding yourself in a strange city, late at night, having just bid farewell to some new friends who introduced you to the city's hottest nightclub. Alone at the curb late on a rainy Saturday night, you're suddenly aware that you don't know exactly where you are, and there's not an unoccupied cab within hailing distance. No problem. You open your Uber app and with a few swipes, everything is arranged. Uber summons the nearest available cab, tells it where you're located (thanks to your phone's GPS), and even gives the driver a description of you based on your preset preferences. Within moments, a cab picks you up, and when it drops you off at your hotel, you just get out and walk away. The cab company bills Uber, freeing you from the hassle of fumbling for cash or a credit card and waiting to sign a receipt.

Mobile marketing can do much more than simply ease the buying process. It can also take ads, coupons, and other promotions to new levels. Mobile marketers can personalize promotions and weave them into relevant everyday customer experiences. For example, Kiip, a mobile reward network in the United States, specializes in helping brands provide customers with just the right reward at just the right time based on their everyday activities. The agency started by embedding its technology into video game apps such as Zombie Farm and Mega Jump. Gamers who reach a new game level or meet some other goal get a coupon to one of their favorite retailers, such as American Apparel.

Kiip now boasts a network of 2,500 apps and 60 million users across games, fitness, productivity, music, and cooking categories. Its client list includes the likes of McDonald's, Pepsi, Unilever, P&G, and American Express. For fitness apps like MapMyRun and productivity apps like Any.do, Kiip ties rewards to real-life achievements. When users cross things off their to-do lists or achieve a running goal, they get a reward from a relevant brand. For example, P&G's Secret deodorant recently rewarded female MapMyRun users with free song downloads for their workout playlists. And snack giant Mondeléz rewarded Any.do users with free packs of Trident when they set new personal records.

Kiip helps marketers reach targeted users at positive moments with rewards relevant to their doings and accomplishments. Readers who finish a certain number of pages in a reading app receive a free magazine subscription. People using a couple's app to stay in touch receive credits toward a purchase from 1-800-Flowers. Kiip is even working with connected-car company Mojio, whose 4G telematic device plugs into a car's diagnostic port, tracks information about the car's status, and keeps the owner connected to favorite people, places, and things. Through Mojio, Kiip helps clients—from insurance companies and car repair shops to parking meter and garage operators—provide rewards tied to specific driver locations and behaviors.

Unlike typical banner ads, pop-ups, or emails, Kiip offers enhance a user's regular activities rather than interrupting them. According to Kiip's founder and CEO, Kiip "is less about real-time marketing and more about real-timeneeds addressing." In fact, he asserts, Kiip isn't really in the mobile ad business at all—it's in the happiness business. "We want to capitalize on happiness," he says. " Everything's better when you're happy." Mobile timeliness, relevance, and happiness pay off in terms of consumer response. Users redeem Kiip's mobile promotions at a 22-percent clip, compared to the 0.3 percent for typical app ad engagement. Kiip's offers also increase mobile app revisits by 30 percent and more than double average app length-of-use.

Many consumers are initially skeptical about mobile marketing. But they often change their minds if mobile offers deliver useful brand and shopping information, entertaining content, or timely coupons and discounted prices. Most mobile efforts target only consumers who voluntarily opt in or download apps. In the increasingly cluttered mobile marketing space, customers just won't do that unless they see real value in it. The challenge for marketers: Develop valued mobile offers, ads, and apps that make customers come calling.

Sources

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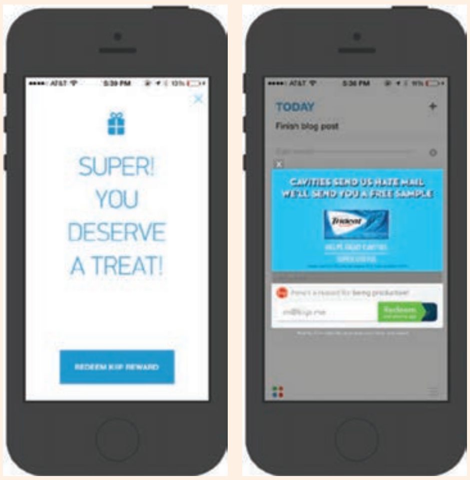


❯ Mobile marketing: Mobile promotions agency Kiip helps client brands link mobile offers to relevant customer experiences and positive moments. "We want to capitalize on happiness," says Kiip's CEO. "Everything's better when you're happy."

Online Marketing

Online marketing
Marketing via the Internet using company Web sites, online ads and promotions, email, online video, and blogs.

Marketing web site
A Web site that engages consumers to move them closer to a direct purchase or other marketing outcome.

Online marketing refers to marketing via the Internet using company Web sites, online advertising and promotions, email marketing, online video, and blogs. They must be coordinated with social media and mobile marketing.

Web Sites and Branded Web Communities

For most companies, the first step in conducting online marketing is to create a Web site. Web sites vary greatly in purpose and content. Some Web sites are primarily **marketing Web sites**, designed to engage customers and move them closer to a direct purchase or other marketing outcome. Here's what's happening in Korea's online retail scene:

Top retailers in Korea are holding their own against online stores by setting up online malls while improving the services of their brick-and-mortar retail outlets.

Korea's retailers such as Lotte, Shinsegae, and Hyundai Department Store are bracing themselves for intensive online competition as virtual marketplaces grow. Cost-efficient and nimble online vendors such as Interpark and Gmarket are threatening the dominance of traditional large retailers. In response, Lotte consolidated its brand power and network of over 140 stores for a better delivery system, reset its service structure, and established an online link to its offline business. Its premium online mall features high-end labels offering customer-tailored services. It also has massive promotional events in conjunction with offline stores. Its "Smart Pick" service allows customers to pick up what they ordered online at department stores. It saves them delivery fees and offers easy return and exchange services. At Shinsegae's E-Mart online mall, if customers order after 10 a.m., the company will harvest fruits the next day and deliver them at once. Hyundai Department Store has a partnership with CJ O Shopping's CJmall. Though Hyundai runs its own Hmall, the partnership will facilitate more efficient stock management.[6]

Branded community Web site
A Web site that engages consumers to move them closer to a direct purchase or other marketing outcome.

In contrast, **branded community Web sites** don't try to sell anything at all. Instead, their primary purpose is to present brand content that engages consumers and creates customer-brand community. Such sites typically offer a rich variety of brand information, videos, blogs, and activities that build closer customer relationships and generate engagement with and between the brand and its customers.

Online Advertising

Online advertising
Advertising that appears while consumers are browsing online, including display ads, search-related ads, online classifieds, and other forms.

As consumers spend more and more time online, companies are shifting more of their marketing dollars to online advertising to build brand sales or attract visitors to their Internet, mobile, and social media sites. **Online advertising** has become a major promotional medium. The main forms of online advertising are display ads and search-related ads. Together, display and search-related ads account for the largest portion of firms' digital marketing budgets, capturing 30 percent of all digital marketing spending.[7]

Online display ads might appear anywhere on an Internet user's screen and are often related to the information being viewed. For instance, while browsing vacation packages on Travelocity.com, you might encounter a display ad offering a free upgrade on a rental car from Enterprise Rent-A-Car. Online display ads have come a long way in recent years in terms of attracting and holding consumer attention. Today's rich media ads incorporate animation, video, sound, and interactivity. For example, while browsing sports-related content on your computer or phone, you might see a bright orange Gatorade G Series banner emerge to take over your screen. Your favorite football player then bursts through the banner before the action settles on a stationary click-through display ad showing how some of the world's biggest sports stars use Gatorade Prime to pre-fuel their bodies before games. The action-packed "takeover" ad takes only a few seconds but delivers major impact.[8]

The largest form of online advertising is search-related ads (or contextual advertising), which accounted for nearly half of all online advertising spending last year. In search advertising, text- and image-based ads and links appear atop or alongside search engine results on sites such as Google, Yahoo!, and Bing. For example, search Google for "LCD TVs." At the top and side of the resulting search list, you'll see inconspicuous ads for 10 or more advertisers, ranging from Samsung and Panasonic to Best Buy, Amazon.com, and Walmart.com. Ninety-six percent of Google's $50 billion in revenues last year came from ad sales. Search is an always-on kind of medium, and the results are easily measured.[9]

A search advertiser buys search terms from the search site and pays only if consumers click through to its site. For instance, type "Coke" or "Coca-Cola" or even just "soft drinks" or "rewards" into your search engine and almost without fail "My Coke Rewards" comes up as one of the top options, perhaps along with a display ad and link to Coca-Cola's official Google+ page. This is no coincidence. Coca-Cola supports its popular online loyalty program largely through search buys. The soft drink giant started first with traditional TV and print advertising but quickly learned that search was the most effective way to bring consumers to its www.mycokerewards.com Web site to register. Now, any of dozens of purchased search terms will return mycokerewards.com at or near the top of the search list.

Email Marketing

Email marketing remains an important and growing digital marketing tool. "Social media is the hot new thing," says one observer, "but email is still the king."[10] By one estimate, 91 percent of all U.S. consumers use email every day. What's more, email is no longer limited to PCs and workstations; 65 percent of all emails are now opened on mobile devices. Not surprisingly, then, a recent study found that email is 40 times more effective at capturing customers than Facebook and Twitter combined. Marketers sent an estimated more than 838 billion emails last year. Despite all the email clutter, thanks to its low costs, email marketing still brings one of the highest marketing returns on investment. According to the Direct Marketing Association, marketers get a return of $44.25 on every $1 they spend on email. U.S. companies spent $2 billion on email marketing last year, up from only $243 million 11 years earlier.[11]

Email marketing
Sending highly targeted, highly personalized, relationship-building marketing messages via email.

When used properly, email can be the ultimate direct marketing medium. Most blue-chip marketers use it regularly and with great success. Email lets these marketers send highly targeted, tightly personalized, relationship-building messages. And today's emails are anything but the staid, text-only messages of the past. Instead, they are colorful, inviting, personalized, and interactive.

However, there's a dark side to the growing use of email marketing. The explosion of **spam**—unsolicited, unwanted commercial email messages that clog up our email boxes—has produced consumer irritation and frustration. According to a research company, spam now accounts for 70 percent of all email sent worldwide.[12] Email marketers walk a fine line between adding value for consumers and being intrusive and annoying.

Spam
Unsolicited, unwanted commercial e-mail messages.

To address these concerns, most legitimate marketers now practice *permission-based email marketing,* sending email pitches only to customers who "opt in." Many companies use configurable email systems that let customers choose what they want to get. Amazon.com targets opt-in customers with a limited number of helpful "we thought you'd like to know" messages based on their expressed preferences and previous purchases. Few customers object, and many actually welcome such promotional messages. Amazon.com benefits through higher return rates and by avoiding alienating customers with emails they don't want.

Online Videos

Another form of online marketing is posting digital video content on brand Web sites or social media sites such as YouTube, Facebook, and others. Some videos are made for the Web and social media. Such videos range from "how-to" instructional videos and public relations (PR) pieces to brand promotions and brand-related entertainment. Other videos are ads that a company makes primarily for TV and other media but posts online before or after an advertising campaign to extend their reach and impact.

Viral marketing
The digital version of word-of-mouth marketing: videos, ads, and other marketing content that is so infectious that customers will seek it out or pass it along to friends.

Good online videos can engage consumers by the millions. The online video audience is soaring. Marketers hope that some of their videos will go viral. **Viral marketing**, the digital version of word-of-mouth marketing, involves creating videos, ads, and other marketing content that is so infectious that customers will seek them out or pass them along to their friends. Because customers find and pass along the message or promotion, viral marketing can be very inexpensive. And when video or other information comes from a friend, the recipient is much more likely to view or read it.

All kinds of videos can go viral, producing engagement and positive exposure for a brand. For example, in one simple but honest McDonald's video, the director of marketing at McDonald's Canada answers an online viewer's question about why McDonald's products look better in ads than in real life by conducting a behind-the-scenes tour of how a McDonald's ad is made. The award-winning 3 ½-minute video pulled almost 15 million views and 15,000 shares, earning the company praise for its honesty and transparency. As another example, in association with the 2016 Rio Summer Olympics, P&G produced heart-warming two-minute "Proud Sponsors of Moms" videos thanking the moms who helped the athletes reach Olympic heights. Those videos garnered tens of millions of views and shares. They also formed the basis for TV ads shown during the events.[14]

At the other extreme, to promote its Shop Your Way rewards program with its free shipping benefit, Kmart posted a TV ad-like video featuring shoppers of all ages exclaiming "ship my pants" (try saying that out loud). "Ship my pants? Right here?" says one surprised shopper. "I just shipped my pants, and it's very convenient," says another. The humorous video wasn't initially aired on TV. But after it pulled in nearly 8 million YouTube views and 38,000 Facebook likes in only one week, Kmart ran the commercial on selected TV channels.[15]

Evian, called by one reporter "the master of online video," has long reaped huge viral video rewards. Evian's first viral success, a 2009 "Roller Skating Babies" ad video playing off the brand's "Live Young" positioning, became the most-viewed ad of all time—but that was then. The sequel, titled "Amazing Baby & Me," which showed adults breakdancing with baby-fied reflections of themselves in city store windows, did even better. It became the most-watched YouTube video of 2013, pulling down an amazing 139 million (and counting) views in more than 80 countries, and generating over 120,000 tweets, more than 1 million shares, and over 289,000 Facebook comments. Less than a year later, the babies were back in another Evian ad video, "Amazing Baby & Me 2," in which Spiderman suddenly encounters a baby version of himself for a dance-off in the streets of New York City. By mid-year, that Evian ad video was well on its way to becoming the most-watched YouTube video of 2014. "Our job is to tell a great brand story which creates desire," says the digital director of Danone, Evian's parent company. "Digital formats amplify that story by allowing enthusiasm and excitement to spread."[16]

However, marketers usually have little control over where their viral messages end up. They can seed content online, but that does little good unless the message itself strikes a chord with consumers.

Blogs and Other Online Forums

Brands also conduct online marketing through various digital forums that appeal to specific special-interest groups. **Blogs** (or Web logs) are online journals where people and companies post their thoughts and other content, usually related to narrowly defined topics.

Blogs
Online journals where people post their thoughts, usually on a narrowly defined topic.

Many marketers are tapping into blogs as a medium for reaching carefully targeted consumers. One way is to advertise on an existing blog or to influence content there.

Companies also set up their own blogs or advertise on existing blogs or influence content there. For example, they might encourage "sponsored conversations" by influential bloggers:

› Using blogs as marketing tools – Companies can advertise on existing blogs or influence content there, or set up their own blogs.

Panasonic—As part of its "Living in High Definition" push, Panasonic wanted to build buzz about its brand at a Consumer Electronic Show (CES) in Las Vegas. But rather than relying on the usual tech journalists attending the show, Panasonic recruited five influential bloggers to travel to the CES at its expense. It footed the bill for their travel and passes to the event while also loaning them digital video and still cameras. In return, the bloggers agreed to share their impressions of the show, including Panasonic product previews, with their own powerful distribution networks, in the form of blog posts, Twitter updates, and YouTube videos. The catch: Panasonic had no say on what their guests posted. To maintain credibility, Panasonic kept its distance, and the bloggers fully disclosed the brand's sponsorship. Still, even though Panasonic didn't dictate content, the "sponsored conversations" allowed the brand to tap into the groundswell of Internet buzz. "When you give [bloggers] equipment and they love it, just like any other consumer they'll evangelize it," says a Panasonic spokesperson. "We're not looking for them to hit message points and in effect shill." Panasonic just wants to be a catalyst for conversations about its brand.[17]

As a marketing tool, blogs offer some advantages. They can offer a fresh, original, personal, and cheap way to reach today's fragmented audiences. They can also offer consumer insights. For example, Starbucks sponsors its own blog (www.MyStarbucksIdea.com) and closely follows consumer dialogue on the 30 or more other third-party online sites devoted to the brand. It then uses the customer insights it gains from all these proprietary and third-party blogs to adjust its marketing programs.[18]

Social Media Marketing

As we've discussed throughout the text so far, the surge in Internet usage and digital technologies and devices has spawned a dazzling array of online **social media** and digital communities. Countless independent and commercial social networks have arisen that give consumers online places to congregate, socialize, and exchange views and information. These days, it seems, almost everyone is buddying up on Facebook or Google+, checking in with Twitter, tuning into the day's hottest videos at YouTube,

Social media
Independent and commercial online communities where people congregate, socialize, and exchange views and information.

pinning images on social scrapbooking site Pinterest, or sharing photos with Instagram and Snapchat. And, of course, wherever consumers congregate, marketers will surely follow. Most marketers are now riding the huge social media wave.

Using Social Media

Marketers can engage in social media in two ways: They can use existing social media or they can set up their own. Using existing social media seems the easiest. Thus, most brands—large and small—have set up shop on a host of social media sites. Check the Web sites of brands ranging from Coca-Cola and Nike to Victoria's Secret and you'll find links to each brand's Facebook, Google+, Twitter, YouTube, Flickr, Instagram, or other social media pages. Such social media can create substantial brand communities. For example, Coca-Cola has an eye-popping 80 million Facebook fans.

Some of the major social networks are huge. More than 1.2 billion people access Facebook every month, 3.4 times the combined populations of the United States and Canada. Similarly, Twitter has more than 645 million registered users, and more than 1 billion unique users visit YouTube monthly, watching more than 6 billion hours of video. The list goes on: Google+ has 400 million active users, LinkedIn 240 million, and Pinterest 70 million.[20]

Although these large social media networks grab most of the headlines, countless niche social media have also emerged. Niche online social networks cater to the needs of smaller communities of like-minded people, making them ideal vehicles for marketers who want to target special interest groups. There's at least one social media network for just about every interest, hobby, or group. Kaboodle.com is for shopaholics, whereas moms share advice and commiseration at CafeMom. com. GoFISHn, a Facebook community of 4,000 anglers, features maps that pinpoint where fish are biting and a photo gallery where members can show off their catches. At Birdpost.com, avid bird watchers can keep an online list of birds they've seen and share bird sightings with other members using modern satellite maps. And myTransponder.com is a Facebook community where pilots find work, students locate flight instructors, and trade-specific advertisers hone in on a hard-to-reach audience of more than 2,000 people who love aviation.[21]

Beyond these independent social media, many companies have created their own online brand communities. For example, in Nike's Nike+ running community—consisting of more than 20 million runners who together have logged more than 1 billion running miles worldwide—members join together online to upload, track, and compare their performances. Due to its success, Nike has expanded Nike+ to both basketball and general training, each with its own unique community site, app, and corresponding products.[22]

Social Media Marketing Advantages and Challenges

Using social media presents both advantages and challenges. On the plus side, social media are targeted and personal—they allow marketers to create and share tailored brand content with individual consumers and customer communities. Social media are interactive, making them ideal for starting and participating in customer conversations and listening to customer feedback. For example, Volvo uses its #Swedespeak Tweetchat platform as a kind of digital focus group to engage customers and obtain immediate input on everything from product features to creating ads. The regular Twitter chats are "creating good conversations," says Volvo's head marketer. "People enjoy being part of [the process]."[23]

Social media are also immediate and timely. They can be used to reach customers anytime, anywhere with timely and relevant marketing content regarding brand happenings and activities. As discussed earlier in the chapter, the rapid growth in social media usage has caused a surge in real-time marketing, allowing marketers to create and join consumer conversations around situations and events as they occur. Marketers can now watch what's trending and create content to match.

Social media can be very *cost effective*. Although creating and administering social media content can be costly, many social media are free or inexpensive to use. Thus, returns on social media investments are often high compared with those of expensive traditional media such as television or print. The low cost of social media puts them within easy reach of even small businesses and brands that can't afford the high costs of big-budget marketing campaigns.

Perhaps the biggest advantage of social media is their *engagement and social sharing capabilities*. Social media are especially well suited to creating customer engagement and community—for getting customers involved with the brand and with each other. More than any other channels, social media can involve customers in shaping and sharing brand content and experiences. Consider the Oreo Cookies vs. Crème Instagram campaign:

> The two-month **Oreo Cookies vs. Crème campaign** began with a Super Bowl XLVII ad in the United States called " Whisper Fight," in which two men argued in a library over which part of an Oreo cookie they like best—the cookies or the crème. The ad invited consumers to take sides by posting photos they love on social scrapbooking Instagram with the hashtag cookiethis or cremethis. Oreo then selected a number of the photos and worked with artists to create sculptures of the photos made of either cookies or crème. The campaign really got people buzzing about what they like best about Oreos. Prior to the Super Bowl airing, Oreo had about 2,200 Instagram followers. Immediately following the game, that number had jumped to about 22,000 followers and is now up to more than 142,000. The contest yielded nearly 32,000 fan submissions and 122 sculptures. More than just launching an Instagram page, Oreo launched "an engagement experience," says an Oreo brand manager. Oreo wrapped up the campaign with a series of short, funny online videos accessed by submitting votes for which you like best: cookies or crème. Oreo's answer to the '*which is best*' question? Not surprisingly, Oreo says it's both.[24]

Social media marketing is an excellent way to create brand communities, places where brand loyalists can share experiences, information, and ideas. For example, Whole Foods Market in the United States uses a host of social media to create a Whole Foods lifestyle community where customers can research foods, access recipes, connect with other customers, discuss relevant food-related topics, and link to in-store events. In addition to its very active Facebook, Twitter, YouTube, and Google+ pages, Whole Foods engages nearly 180,000 brand followers with 59 boards on social scrapbooking site Pinterest. Board topics range from "Food Tips and Tricks," "Delicious Art," and "Edible Celebrations" to Super HOT Kitchens, which is loaded with pictures of captivating kitchens. Whole Foods isn't in the kitchen remodeling business, but cooking and kitchens are a big part of the Whole Foods customer lifestyle.[25]

Social media marketing also presents challenges. First, many companies are still experimenting with how to use them effectively, and results are hard to measure. Second, such social networks are largely user controlled. The company's goal in using social media is to make the brand a part of consumers' conversations and their lives. However, marketers can't simply muscle their way into consumers' digital interactions—they need to earn the right to be there. Rather than intruding, marketers must become a valued part of the online experience by developing a steady flow of engaging content.

Since consumers have so much control over social media content, even the seemingly most harmless social media campaign can backfire. For example, Frito-Lay launched a Do Us a Flavor contest in the United States, in which it asked people to come up with new potato chip flavors, submit them to its Web or Facebook site, and design bag art for their creations. Many consumers took the contest (and the $1 million grand prize) seriously, submitting flavors that people would truly want to eat. However, others hijacked the contest by submitting sometimes hilarious but completely bogus flavors, ranging from Crunchy Frog and Blue Cheese, Toothpaste and Orange Juice, 7th Grade Locker Room, and Bandaid in a Public Pool to Anthrax Ripple and "90% Air and Like 4 Chips." Unfortunately, for each submission, no matter how bogus, the Web site responded cheerfully with a colorful rendition of the bag and flavor name, along with a message like the following: "7th Grade Locker Room? That does sound yummy as a chip! Keep those tasty ideas coming for your next chance to win $1 million." With social media, "you're going into the consumer's backyard. This is their place," warns one social marketer. "Social media is a pressure cooker," says another. "The hundreds of thousands, or millions, of people out there are going to take your idea, and they're going to try to shred it or tear it apart and find what's weak or stupid in it."[26]

Integrated Social Media Marketing

Using social media might be as simple as posting some messages and promotions on a brand's Facebook or Twitter pages or creating brand buzz with videos or images on YouTube or Pinterest. However, most large companies are now designing full-scale social media efforts that blend with and support other elements of a brand's marketing strategy and tactics. More than making scattered efforts and chasing "Likes" and tweets, companies that use social media successfully are integrating a broad range of diverse media to create brand-related social sharing, engagement, and customer community.

Managing a brand's social media efforts can be a major undertaking. For example, Starbucks, one of the most successful social media marketers, manages 51 Facebook pages (including 43 in other countries); 31 Twitter handles (19 of them international); 22 Instagram names (14 international); plus Google+, Pinterest, YouTube, and Foursquare accounts. Managing and integrating that entire social media content is challenging, but the results are worth the investment. Customers can engage with Starbucks digitally without ever setting foot in a store—and engage they do. With more than 36 million fans on its main U.S. page alone, Starbucks is the sixth-largest brand on Facebook. It ranks fifth on Twitter with 88.5 million followers.

However, more than just creating online engagement and community, Starbucks' social media presence also drives customer into its stores. For example, in its first big social media promotion four years ago, Starbucks offered a free pastry with a morning drink purchase. A million people showed up. Its more recent "Tweet-a-Coffee" promotion, which let customers give a $5 gift card to a friend by putting both #tweetacoffee and the friend's handle in a tweet, resulted in $180,000 in purchases within little more than one month. Social media "are not just about engaging and telling a story and connecting," says Starbucks' head of global digital marketing. "They can have a material impact on the business."[27]

Traditional Direct Marketing Forms

The major traditional forms of direct marketing are face-to-face or personal selling, direct-mail marketing, catalog marketing, telemarketing, direct-response television

(DRTV) marketing, and kisok marketing. Personal selling was examined in depth in an earlier chapter. Here, we look into the other forms of traditional direct marketing.

Direct-Mail Marketing

Direct-mail marketing involves sending an offer, announcement, reminder, or some other item to a person at a particular address. Using highly selective mailing lists, direct marketers send out millions of mail pieces each year.

Direct-mail marketing
Direct marketing by sending an offer, announcement, reminder, or other item to a person at a particular physical or virtual address.

Direct mail is well suited to direct, one-to-one communication. It permits high target-market selectivity, can be personalized, is flexible, and allows easy measurement of results. Although direct mail costs more than mass media such as television or magazines per thousand people reached, the people it reaches are much better prospects. Direct mail has proved to be successful in promoting products from books, music, insurance, gift items, clothing, gourmet foods, and industrial products.

The use of traditional forms of direct mail is predicted to decline as marketers switch to newer digital forms such as email and modile marketing. Yet, much like mail delivered through traditional channels, they may be resented as "junk mail" or spam if sent to people who have no interest in them. For this reason, smart marketers are targeting their direct mail carefully so as not to waste their money and recipients' time.

Catalog Marketing

Advances in technology, along with the move toward personalized, one-to-one marketing have resulted in exciting changes in **catalog marketing**.

Catalog marketing
Direct marketing through print, video, or electronic catalogs that are mailed to select customers, made available in stores, or presented online.

With the Internet, more and more catalogs are going digital. A variety of digital catalogers have emerged, and most print catalogers have added digital catalogs to their marketing mixes. digital catalogs present a number of benefits compared to printed catalogs. They save on production, printing, and mailing costs. Whereas print-catalog space is limited, online catalogs can offer an almost unlimited amount of merchandise. Digital catalogs also allow real-time merchandising: products and features can be added or removed as needed, and prices can be adjusted instantly to match demand. Finally, digital catalogs can be spiced up with interactive entertainment and promotional features, such as games, contests, and daily specials.

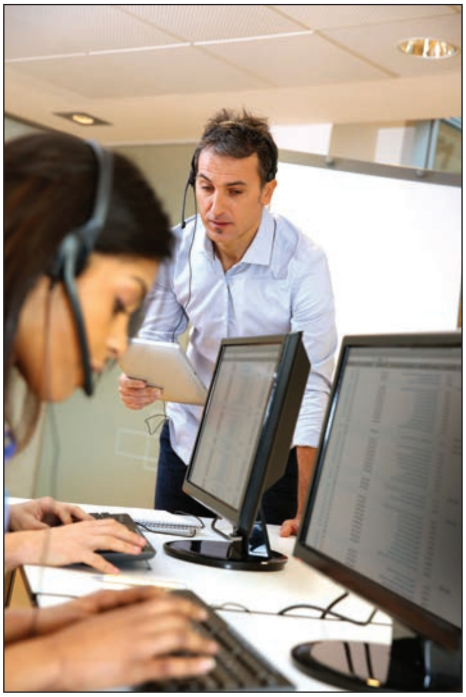
However, digital catalogs also present challenges. While a print catalog is intrusive and creates its own attention, digital catalogs are passive and must be marketed. Attracting new customers is much more difficult for a Web catalog than for a print catalog. Thus, even catalogers who are sold online are not likely to abandon their print catalogs.

Print catalog – Printed catalogs, such as this one from IKEA, are still the primary medium in catalog marketing.

Telemarketing
Using the telephone to sell directly to customers.

Telemarketing

Telemarketing involves using the telephone to sell directly to consumers and business customers. Marketers use *outbound* telephone marketing to sell directly to consumers and businesses. *Inbound* toll-free numbers are used to receive orders from television and print ads, direct mail, or catalogs.



Properly designed and targeted telemarketing provides many benefits including purchasing convenience and increased product and service information. However, the explosion in unsolicited telemarketing has annoyed consumers. Laws such as the "Do Not Call" registry has been established in markets such as Singapore.

Telemarketing remains a major fundraising tool for non-profit groups even as telemarketers are shifting to alternative methods for capturing new customers and sales, from direct mail, direct-response TV, and live-chat technology to sweepstakes that prompt customers to call in.

› **Telemarketing** – It has evolved over the years to focus more on managing existing customer relationships through "opt-in" calling systems.

Direct-response television (DRTV) marketing
Direct marketing via television, including direct-response television advertising (or infomercials) and home shopping channels.

Direct-Response Television Marketing

Direct-response television (DRTV) marketing takes one of two major forms. The first is *direct-response television advertising*. Direct marketers air television spots, often 60 or 120 seconds long, which persuasively describe a product and give customers a toll-free number or Web site for ordering. Television viewers also often encounter full 30-minute or longer advertising programs, or *infomercials*, for a single product.

Home shopping channels, another form of DRTV marketing, are television programs or entire channels dedicated to selling goods and services. Some of these channels are popular in Korea and Taiwan. Program hosts chat with viewers by phone and offer products ranging from jewelry, lamps, collectible dolls, and clothing to power tools and consumer electronics. Viewers call a toll-free number or go online to order goods.

Kiosk Marketing

As consumers become more and more comfortable with computer and digital technologies, many companies are placing information and ordering machines—called *kiosks* (in contrast to vending machines, which dispense actual products)—in stores, airports, and other locations. Kiosks are popping up everywhere, from self-service hotel and airline check-in devices to in-store ordering kiosks that let you order merchandise not carried in the store.

In-store photo kiosks let customers transfer pictures from memory sticks, mobile phones, and other digital storage devices, edit them, and make high-quality color prints. Kiosks in some Hilton hotel lobbies let guests view their reservations, get room keys, view pre-arrival messages, check in and out, and even change seat assignments and print boarding passes for flights on several airlines. At the Singapore Changi Airport, Singapore Airlines has kiosks that dispense boarding passes for automatic check-ins.

Public Policy Issues in Direct and Digital Marketing

While online marketing continues to offer great promise, the aggressive and sometimes shady tactics of a few direct marketers can bother or harm consumers. Abuses range from simple excesses that irritate consumers to instances of unfair practices or even outright deception and fraud. The direct marketing industry has also faced growing invasion-of-privacy concerns, and online marketers must deal with Internet security issues.

Irritation, Unfairness, Deception, and Fraud

Excessive direct marketing annoys or offends consumers. We dislike our mailboxes to be filled with unwanted junk mail, our email boxes with spam, or unwanted text messages on our mobile phones.

Beyond irritating consumers, some direct marketers have been accused of taking unfair advantage of impulsive or less-sophisticated buyers. TV shopping channels and program-long "infomercials" targeting television-addicted shoppers seem to be the worst culprits. They feature smooth-talking hosts, elaborately staged demonstrations, claims of drastic price reductions, "while they last" time limitations, and unequaled ease of purchase to inflame buyers who have low sales resistance.Worse yet, so-called heat merchants design mailers and write copy intended to mislead buyers.

Fraudulent schemes, such as investment scams or phony collections for charity, have also multiplied in recent years. *Internet fraud*, including identity theft and financial scams, has become a serious problem.

One common form of Internet fraud is *phishing*, a type of identity theft that uses deceptive emails and fraudulent Web sites to fool users into divulging their personal data. According to one survey, half of all Internet users have received a phishing email. Although many consumers are now aware of such schemes, phishing can be extremely costly to those caught in the net. It also damages the brand identities of legitimate online marketers who have worked to build user confidence in Web and email transactions.[28]

› Phishing
– As many as half of all Internet users have received a phishing email that tries to fool users into divulging their personal data.

Many consumers also worry about *online security*. They fear that unscrupulous snoopers will eavesdrop on their online transactions or intercept their credit card numbers and make unauthorized purchases. A survey showed that six out of 10 online shoppers were concerned enough about online security to consider reducing the amount of their online holiday shopping.[29] Such concerns are costly for direct-marketing companies.

Another Internet marketing concern is that of *access by vulnerable or unauthorized groups*. For example, marketers of adult-oriented materials have found it difficult to restrict access by minors. In a survey, one in four children aged eight to 12 admitted to having an account on social network sites such as Facebook, which supposedly do not allow children under 13 to have a profile. The survey also found that 17 percent of their parents did not know they had a social network account.[30]

Consumer Privacy

Invasion of privacy is perhaps the toughest public policy issue now confronting the direct marketing industry. Consumers often benefit from database marketing—they receive more offers that are closely matched to their interests. However, many critics worry that marketers may know *too* much about consumers' lives and that they may use this knowledge to take unfair advantage of consumers. At some point, they claim, the extensive use of databases intrudes on consumer privacy.

› Invasion of privacy – Critics worry that the information collected from consumers through items such as credit card applications may be used by marketers to intrude on privacy and take unfair advantage.

These days, it seems that almost every time consumers enter a sweepstake, apply for a credit card, visit a Web site, or order products by mail, telephone, or the Internet, their names enter some company's already bulging database. Using sophisticated computer technologies, direct marketers can use these databases to "microtarget" their selling efforts. *Online privacy* causes special concerns. Most online marketers have become skilled at collecting and analyzing detailed consumer information.

Some consumers and policymakers worry that the ready availability of information may leave consumers open to abuse. For example, they ask, should Web sellers be allowed to plant cookies in the browsers of consumers who visit their sites and use tracking information to target ads and other marketing efforts? Should credit card companies be allowed to make data on their millions of cardholders worldwide available to merchants who accept their cards?

A Need for Action

To curb direct marketing excesses, government agencies are investigating do-not-call and do-not-mail lists. The Singapore government is considering setting up a "do-not-call" registry where consumers can opt out of receiving telemarketing calls, text messages, and fax messages.

All these call for strong action by marketers to prevent privacy and security abuses before legislators do it for them. Non-profit self-regulatory organizations can work with corporate sponsors to audit companies' privacy and security measures and help consumers navigate the Web safely. The direct marketing industry can also address public policy issues by encouraging companies to adhere to consumer privacy rules such as notifying customers when any personal information is rented, sold, or exchanged with others; honoring customer requests to "opt out" of receiving further solicitations or having their contact information transferred to other marketers; and removing the names of consumers who do not wish to receive mail, telephone, or email offers.

Direct marketers know that, left untended, such direct marketing abuses will lead to increasingly negative consumer attitudes, lower response rates, and calls for more restrictive legislation. Most direct marketers want the same things that consumers want: honest and well-designed marketing offers targeted only toward consumers who will appreciate and respond to them.

Reviewing Objectives and Key Terms

This chapter is the last of three chapters covering the final marketing mix element—promotion. The previous chapters dealt with advertising, public relations, personal selling, and sales promotion. This one investigated the burgeoning field of direct and online marketing.

OBJECTIVE 1 Define direct marketing and discuss its benefits to customers and companies. (pp. 562–566)

Direct marketing consists of direct connections with carefully targeted segments or individual consumers. Beyond brand and relationship building, direct marketers usually seek a direct, immediate, and measurable consumer response. Using detailed databases, direct marketers tailor their offers and communications to the needs of narrowly defined segments or even individual buyers.

For buyers, direct marketing is convenient, easy to use, and private. It gives buyers ready access to a wealth of products and information, at home and around the globe. Direct marketing is also immediate and interactive, allowing buyers to create exactly the configuration of information, products, or services they desire, then order them on the spot. For sellers, direct marketing is a powerful tool for building customer relationships. Using database marketing, today's marketers can target small groups or individual consumers, tailor offers to individual needs, and promote these offers through personalized communications. It also offers them a low-cost, efficient alternative for reaching their markets. As a result of these advantages to both buyers and sellers, direct marketing has become the fastest-growing form of marketing.

OBJECTIVE 2 Identify and discuss the major forms of direct and digital marketing. (pp. 566–571)

The main forms of direct marketing include *personal selling*, *direct-mail marketing*, *catalog marketing*, *telephone marketing*, *DRTV marketing*, *kiosk marketing*, and *online marketing*. We discussed personal selling in the previous chapter.

Direct-mail marketing, the largest form of direct marketing, consists of the company sending an offer, announcement, reminder, or other such items to a person at a specific address. Recently, new forms of mail delivery have become popular, such as email and mobile marketing. Some marketers rely on catalog marketing—selling through catalogs mailed to a select list of customers, made available in stores, or accessed on the Web. Telephone marketing consists of using the telephone to sell directly to consumers. DRTV marketing has two forms: direct-response advertising (or infomercials) and home shopping channels. Kiosks are information and ordering machines that direct marketers place in stores, airports, hotels, and other locations. In recent years, a number of new digital direct marketing technologies have emerged, including mobile marketing, podcasts and vodcasts, and interactive TV. Online marketing involves online channels that digitally link sellers with consumers.

OBJECTIVE 3 Explain how companies have responded to the Internet and other powerful new technologies with online marketing strategies. (pp. 572–577)

Online marketing is the fastest-growing form of direct marketing. The *Internet* enables consumers and companies to access and share huge amounts of information with just a few mouse clicks. In turn, the Internet has given marketers a whole new way to create value for customers and build customer relationships. It's hard to find a company today that doesn't have a substantial Web marketing presence.

Online advertising has become a major promotional medium. The main forms of online advertising are display ads and search-related ads. Email marketing is also an important form of digital marketing. Used properly, email lets marketers send highly targeted, tightly personalized, relationship-building messages. Another important form of online marketing is posting digital video content on brand Web sites or social media. Marketers hope that some of their videos will go viral, engaging consumers by the millions. Finally, companies can use blogs as effective means of reaching customer communities.

Online consumer buying continues to grow at a healthy rate. Most American online users now use the Internet to shop. Perhaps more importantly, the Internet influences offline shopping. Thus, smart marketers are employing integrated multichannel strategies that use the Web to drive sales to other marketing channels.

OBJECTIVE 4 Discuss how companies go about applying social media marketing to profitably deliver more value to customers. (pp. 577–582)

Companies of all types are now engaged in online marketing. The Internet gave birth to *click-only companies* that operate online only. In addition, many traditional brick-and-mortar companies have now added online marketing operations, transforming themselves into *click-and-mortar competitors*. Brands can use existing social media or they can set up their own. Using existing social media seems the easiest. Thus, most brands have set up shop on a host of social media sites. Some of the major social networks are huge; other niche social media cater to the needs of smaller communities of like-minded people. Beyond these independent social media, many companies have created their own online brand communities.

Most companies are integrating a broad range of diverse media to create brand-related social sharing, engagement, and customer community.

Using social media presents both advantages and challenges. On the plus side, social media are targeted and personal, interactive, immediate and timely, and cost effective. Perhaps the biggest advantage is their engagement and social sharing capabilities, making them ideal for creating customer community. On the down side, consumers' control over social media content make social media difficult to control.

OBJECTIVE 5 Overview of the public policy and ethical issues presented by direct and digital marketing. (pp. 582–584)

Direct and digital marketers and their customers usually enjoy mutually rewarding relationships. Sometimes, however, direct marketing presents a darker side. The aggressive and sometimes shady tactics of a few direct marketers can bother or harm consumers, giving the entire industry a black mark. Abuses range from simple excesses that irritate consumers to instances of unfair practices or even outright deception and fraud. The direct marketing industry has also faced growing concerns about invasion of privacy and Internet security issues. Such concerns call for strong action by marketers and policymakers to curb direct marketing abuses. In the end, most direct marketers want the same things that consumers want: honest and well-designed marketing offers targeted only towards consumers who will appreciate and respond to them.

Key Terms

OBJECTIVE 1
Direct and digital marketing (p 547)

OBJECTIVE 2
Direct-mail marketing (p 560)
Catalog marketing (p 561)
Telemarketing (p 562)
Direct-response television (DRTV) marketing (p 562)

OBJECTIVE 3
Online marketing (p 554)
Online advertising (p 554)
Marketing Web site (p 554)
E-mail marketing (p 555)
Spam (p 555)
Viral marketing (p 556)
Blogs (p 557)

OBJECTIVE 4
Social media (p 557)

Discussing the Concepts

1. Name and describe the major forms of direct and digital marketing. (AACSB: Communication)
2. Discuss the benefits of direct and digital marketing to both buyers and sellers. (AACSB: Communication)
3. Explain the ways in which companies can conduct online marketing. (AACSB: Communication)
4. Compare and contrast the different forms of online advertising. What factors should a company consider in deciding among these different forms? (AACSB: Communication; Reflective Thinking)
5. What are the basic Internet security fears of consumers? Are these fears usually justified? Identify five actions a consumer can take to reduce the risk of Internet security problems. (AACSB: Reflective Thinking)

Applying the Concepts

1. In a small group, design a viral marketing campaign targeted at teens for a brand of soft drink. Discuss the challenges marketers might encounter when implementing this viral campaign. (AACSB: Communication; Use of IT; Reflective Thinking)
2. Visit Nike's Web site at www.nikeid.nike.com and design your own shoe. Print out your shoe design and bring it to class. Do you think the price is appropriate for the value received from being able to customize your shoe? Identify and describe two other Web sites that allow buyers to customize products. (AACSB: Communication; Use of IT; Reflective Thinking)
3. What can consumers do to reduce unsolicited mail and email from marketers? (AACSB: Reflective Thinking)

Focus on Technology

The Internet opened the door for explosive growth in direct marketing, and much of that growth is through applications for mobile devices. For example, for $12.99 per month, Schlage, a lock manufacturer, now offers a wireless, keyless door lock system integrated with mobile phones. And Zipcar, a car-sharing service, launched an app for the iPhone enabling customers to not only reserve and locate a car but also unlock it and drive it away—all without contacting a customer service representative. Honking the virtual horn on an iPhone triggers the horn on the reserved car so the member can locate it in the Zipcar lot. The app even looks like a key fob, prompting the user to push the button to unlock the door. Once in the car, swiping a membership card allows access to the keys in the car.

1. What key benefits do these forms of direct marketing offer for consumers and for marketers? (AACSB: Communication; Use of IT; Reflective Thinking)
2. Find or conceive of other applications in which the Internet and mobile devices create direct marketing opportunities. (AACSB: Communication; Reflective Thinking)

Focus on Ethics

The World Wide Web is often referred to as the Wild West. Unlike advertising, which openly identifies the sponsor, much product and brand information seen on the Internet does not reveal sponsorship. You might read about a product in a blog, see it in a YouTube video, or follow it on Twitter, often unaware that the person was paid or provided free merchandise or goodies to say positive things. These undercover company shills are difficult to detect. Kmart, Sony Pictures, HP, and other marketers use companies like IZEA to develop sponsored conversations using its network of bloggers. Sponsored conversations generated by IZEA disclose sponsorships, but many others do not. However, that could be changing soon. The Federal Trade Commission (FTC) recently updated its endorsement guidelines requiring bloggers to disclose sponsorships. Violators could be slapped with an $11,000 fine per violation, but with almost 30 million bloggers out there—80 percent of whom occasionally or frequently post product or brand reviews—it will be difficult, if not impossible, to enforce this rule. Even with the new rules, sponsored conversations grew almost 14 percent to $46 million in 2009.

1. Find examples of product information posted in blogs. Did the blogger indicate in the post that he or she was paid or provided free products? Should the government enact laws to require bloggers and others on the Internet to disclose sponsorship from marketers? Explain. (AACSB: Communication; Ethical Reasoning)
2. Review the FTC's revised guidelines on endorsements and testimonials in advertising (www.ftc.gov/os/2009/10/091005revisedendorsementguides.pdf) and visit the Word of Mouth Marketing Association's Web site (http://womma.org/main) and the Web site of a social marketing company, such as IZEA (http://izea.com). Write a report on how marketers can effectively use sponsored conversations within the FTC's guidelines. (AACSB: Communication; Reflective Thinking)

Marketing & the Economy

Dell

Not long ago, Dell was the PC industry darling, turning the industry upside down with its direct marketing approach. At one point, it was the world's leading PC maker. But in recent years, Dell has been hit hard by a combination of factors. One is competition: HP took Dell's "top-seller" status away by providing a better one-stop shop for equipment and services to businesses, where Dell gets three-fourths of its sales. At the same time, Taiwanese competitor Acer took a bite out of Dell's low-cost advantage. By selling cheaper machines, Acer bumped Dell out of the number two market share spot. The final blow came from the weak economic environment, which has made consumers and businesses more reluctant to upgrade to newer, faster models. Dell's PC sales fell by 13 percent in 2010, and its net profits fell by 44 percent. The company has cut costs and is also looking to its other businesses to shore up sagging PC sales. But for the most part, Dell appears to just be hanging on while waiting for an improved economy and a predicted powerful PC replacement cycle to reboot the industry.

1. What is wrong with Dell's strategy to increase PC sales?
2. How can Dell overcome this problem, particularly as consumer frugality persists? What would you recommend?

Marketing by the Numbers

Many companies are realizing the efficiency of telemarketing in the face of soaring sales force costs. Whereas the average cost of a B-to-B sales call by an outside salesperson costs more than $300, the cost of a telemarketing sales call can be as little as $5 to $20. In addition, telemarketers can make up to 33 decision maker contacts per day compared to a salesperson's four per day. This has gotten the attention of many B2B marketers, where telemarketing can be very effective.

1. Refer to Appendix 2 to determine the marketing return on sales (marketing ROS) and marketing ROI for each company in the chart below. Which company is performing better? Explain. (AACSB: Communication; Analytical Reasoning; Reflective Thinking)

	Company A (sales force only)	Company B (telemarketing only)
Net sales	$2,000,000	$1,000,000
Cost of goods sold	$800,000	$500,000
Sales expense	$700,000	$200,000

2. Should all companies consider reducing their sales forces in favor of telemarketing? Discuss the pros and cons of this action. (AACSB: Communication; Reflective Thinking)

Video Case

Zappos.com

Zappos.com spends almost no money on advertising—it doesn't have to. Customers are so enamored with the company, they keep coming back. And they keep telling their friends. Instead of mass-media advertising, Zappos.com focuses on strengthening customer relationships through marketing directly to customers. Like its impeccable customer service, the company's unique promotional methods are valued by customers. When Zappos.com sends out an email or tweet, customers listen. Its strength in direct marketing, combined with a user-friendly Web design, has made Zappos one of the strongest retailers anywhere. After viewing the video featuring Zappos, answer the following questions:

1. What benefits has Zappos.com gained by marketing directly to customers rather than engaging heavily in mass-market advertising?
2. What role does database technology play in Zappos.com's ability to connect with its customers?
3. Discuss Zappos.com's Web site in terms of effective Web design. What are its strengths and weaknesses?

Company Case

Amazon.com:
Creating A Direct and Satisfying Online Customer Experience

When you think of shopping on the Web, there's a good chance that you think first of Amazon. The online pioneer first opened its virtual doors in 1995, selling books out of founder Jeff Bezos' garage in suburban Seattle. Amazon still sells books—*lots and lots* of books. But it now sells just about everything else as well, from music, videos, electronics, tools, housewares, apparel, mobile phones, and groceries to loose diamonds and Maine lobsters. Many analysts view Amazon.com as the model for direct marketing in the digital age.

Since its start, Amazon has grown explosively. Its annual sales have rocketed from a modest $150 million in 1997 to more than $107 billion today. In 2015, sales grew 24 percent over 2014, turning the loss of $241 million into a profit of $596 million. In 2015, it has 304 million active customers worldwide. The company's cloud business, which counts Netflix amongst its biggest customers, continues to do well. Its Amazon Web Service, which provides access to technology infrastructure that developers can use to enable virtually various type of business, generated around $7.9 billion in revenue in 2015, compared to $4.7 billion in 2014. It also nearly doubled customer base of Prime video in international markets in 2015, and that viewing hours more than doubled globally year over year.

What Makes it Tick?

What has made Amazon one of the world's premier direct marketers? To its core, the company is relentlessly customer-driven. "The thing that drives everything is creating genuine value for customers," says Bezos. The company starts with the customer and works backward. "Rather than ask what are we good at and what else can we do with that skill," says Bezos, "we ask, who are our customers? What do they need? And then [we] learn those skills."

For example, when Amazon saw an opportunity to serve its book-buying customers better through access to e-books and other e-content, it developed its own product for the first time ever—the innovative Kindle and Kindle Fire, a wireless reading device for downloading books, blogs, magazines, newspapers, and other material. There are also various Kindle apps that let customers enjoy e-books on devices ranging from BlackBerrys and Droids, to iPhones and iPads.

The Customer Experience

Perhaps more important than *what* Amazon sells is *how* it sells. The company wants to do much more than just sell books or DVDs or digital cameras. It wants to deliver a special *experience* to every customer. "The customer experience really matters," says Bezos. "We've focused on just having a better store, where it's easier to shop, where you can learn more about the products, where you have a bigger selection, and where you have the lowest prices. You combine all of that stuff together and people say, 'Hey, these guys really get it.'"

And customers get it, too. Most Amazon.com regulars feel a surprisingly strong relationship with the company, especially given the almost complete lack of actual human interaction. Amazon obsesses over making each customer's experience uniquely personal. For example, the Web site greets customers with their very own personalized home pages, and its "Recommendations for You" feature offers personalized product recommendations. Amazon was first to use "collaborative filtering" technology, which sifts through each customer's past purchases and the purchasing patterns of customers with similar profiles to come up with personalized site content. "We want Amazon.com to be the right store for you as an individual," says Bezos. "If we have 88 million customers, we should have 88 million stores."

Visitors to Amazon.com receive a unique blend of benefits: huge selection, good value, and convenience. But it's the "discovery" factor that makes the buying experience really special. Once on the Web site, you're compelled to stay for a while—looking, learning, and discovering. Amazon.com has become a kind of online community in which customers can browse for products, research purchase alternatives, share opinions and reviews with other visitors, and chat online with authors and experts. In this way, Amazon does much more than just sell goods on the Web. It creates direct, personalized customer relationships and satisfying online experiences. Year after year, Amazon comes in number one or number two on the American Customer Satisfaction Index, regardless of industry.

To create even greater selection and discovery for customers, Amazon.com allows competing retailers—from mom-and-pop operations to Marks & Spencer—to offer their products on Amazon.com, creating a virtual shopping mall of incredible proportions. It even encourages customers to sell used items on the site. The broader selection attracts more customers, and everyone benefits. "We are becoming increasingly important in the lives of our customers," says an Amazon marketing executive.

The Future

Based on its powerful growth, many have speculated that Amazon.com will become the Wal-Mart of the Web. In fact, some argue, it already is. While in 2009, Wal-Mart's total sales of more than $400 billion dwarf Amazon's $24 billion in sales, Amazon has caught up with sales now only a quarter of Wal-Mart's. With its online sales expanding faster than Wal-Mart's, some argue that it's Wal-Mart that's chasing Amazon on the Web. Put another way, Wal-Mart wants to become the Amazon.com of the Web, not the other way around. However, despite its mammoth proportions, to catch Amazon online, Wal-Mart will have to match the superb Amazon customer experience, and that won't be easy.

Whatever the eventual outcome, Amazon has forever changed the face of online marketing. Most importantly, the innovative direct retailer has set a very high bar for the online customer experience. "The reason I'm so obsessed with … the customer experience is that I believe [our success] has been driven exclusively by that experience," says Bezos. "We are not great advertisers. So we start with customers, figure out what they want, and figure out how to get it to them."

Questions for Discussion

1. Conduct a brief analysis of the marketing environment and the forces shaping the development of Amazon.com.
2. Discuss Amazon's business model. What general benefits does it afford to buyers and sellers? What benefits are most important in terms of creating value for buyers and sellers?
3. Discuss how Amazon can enter Asia successfully. What factors affect its success or failure? How does this vary from country to country?
4. What recommendations would you provide for Amazon's future growth and success?

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Objective Outline

OBJECTIVE 1
Discuss the need to understand competitors as well as customers through competitor analysis.
Competitor Analysis (577–585)

OBJECTIVE 2
Explain the fundamentals of competitive marketing strategies based on creating value for customers.
Competitive Strategies (585–595)

OBJECTIVE 3
Illustrate the need for balancing customer and competitor orientations in becoming a truly market-centered organization.
Balancing Customer and Competitor Orientations (596)

Chapter 18

Creating Competitive Advantage

Previewing the Concepts

In previous chapters, you explored the basics of marketing. In this chapter, we pull all of the marketing basics together. Understanding customers is an important first step in developing profitable customer relationships, but it's not enough. To gain competitive advantage, companies must use this understanding to design market offers that deliver more value than the offers of *competitors* seeking to win the same customers. In this chapter, we look first at competitor analysis, the process companies use to identify and analyze competitors. Then, we examine competitive marketing strategies by which companies position themselves against competitors to gain the greatest possible competitive advantage.

Let's look first at Korean car maker Hyundai. During the financial crisis, most car companies slashed their marketing budgets to weather the economic storm. But Hyundai did just the opposite. It *increased* its marketing spending as rivals were cutting back. And it found just the right value proposition for the changing economic times and marketplace.

Hyundai: Hitting the Accelerator When Competitors Throttle Down

Consider the state of affairs when American viewers tuned into the Super Bowl in February 2009. Banks had failed, the stimulus package still hadn't been announced, and unemployment was surging.

Escapism was the order of the day, and most advertisers played right along, with brands like Coca-Cola offering happy ads that jarred with reality. There was one advertiser, however, that didn't. In the third quarter, in an otherwise standard-issue, cars-rolling-through-the-landscape spot, a voiceover brought into the light of day something that most people didn't want to talk about. "Now, finance or lease a new Hyundai; and if you lose your income in the next year, you can return it with no impact on your credit."

With that bold stroke, Hyundai—yes, Hyundai—an automaker not historically known for fearless marketing, began in earnest a frontal assault on a recession that was not only dampening consumer enthusiasm but also drowning it. Then, in sharp contrast to its rivals, many of whom had slashed their marketing budgets, the Korean car maker put the pedal to the marketing metal by repeating the Hyundai Assurance promise in an eye-popping nine high-profile spots in the Academy Awards.

Hyundai's aggressive, customer-focused marketing strategy in the face of the economic downturn produced stunning results. The Hyundai Assurance program resonated with debt-wary consumers, and Hyundai's sales rocketed 59 percent in January and February 2009 as compared with the previous year. Nielsen's post-game survey showed that 43 percent of participants who saw the ads improved their opinion of Hyundai. The Hyundai Assurance program, "made people feel Hyundai cared about their situation—that they were sympathetic," said one analyst. The ads said, "We hear you. We understand. We're in this together."

> Hyundai's marketing hustle and aggressive competitive marketing strategy have made it the world's fastest-growing major car maker. When rivals throttled down on marketing, Hyundai hit the accelerator.

❯ "Hyundai is for real," says one analyst. "Competitors hate them. Customers love them."

Hyundai's competitive marketing strategy is all about opportunity, aggressiveness, and speed. In 1986, the then virtually unknown Hyundai entered the U.S. market with its small, entry-level Hyundai Excel, priced at an incredibly low $5,000. After some early success, Hyundai hit a speed bump with design and quality. The car had outdated looks, an underpowered engine, and flimsy engineering.

Hyundai then stepped up its investments in quality, new model introductions, and marketing. In late 1998, Hyundai introduced the industry's first 10-year, 100,000-mile drive-train warranty, and by 2007 it had substantially improved both its quality and reputation. In 2008, the company introduced its new Genesis upmarket sedan—a step up from its best-selling mid-size Sonata model and the priciest Hyundai ever.

Then came the global recession and the virtual implosion of the U.S. auto industry. But rather than throttling down, Hyundai hit the accelerator. As rivals were cutting their marketing budgets, an opportunistic Hyundai *increased* its spending. More spending, however, means little without good marketing ideas. With the economy down, what could Hyundai possibly say that would get reluctant consumers buying again? Joel Ewanick, Hyundai's Chief Marketing Officer, asked consumers directly. "You can only learn so much by reading research numbers," he said. "It's another thing to have them look you in the eye and say how they feel." In focus groups, Ewanick kept asking, "Why aren't you buying a car right now? You say you want to buy one, but you aren't doing it." As he pressed the question, people began to open up. "We realized the elephant in the room was the fear of losing your job," Ewanick recounts. "This was a recession of fear."

Hyundai acted quickly on this insight. Within only 37 days, it fashioned the Hyundai Assurance program and produced TV ads. It purchased two spots in the 2009 Super Bowl, along with sponsorship of the pre-game show, followed by those nine Academy Award spots. These bold marketing moves and Hyundai's customer-focused value proposition helped the brand turn the corner on customer perceptions. Even though only about 100 customers returned their cars, the Hyundai Assurance program won Hyundai enormous amounts of attention and goodwill. The ads alerted customers that Hyundai stood behind its brands and with its buyers. "The idea of giving people the option to give the car back if they were struggling … seemed to make customers comfortable and increase our market share in an economy like this," said Ewanick.

Moving forward, despite the sluggish economy, Hyundai showed no signs of slowing down. In 2010, it introduced a new premium luxury model called Equus (with a price tag of about $60,000), designed to compete with top-of-the-line models marketed by Mercedes, BMW, and Audi that cost $20,000 more. It also introduced the Sonata Hybrid and the Sonata Turbo models. Although it continued its Hyundai Assurance program throughout 2010, nevertheless, in line with a changing economy, Hyundai's more recent ads have shifted from "the safety of purchasing a Hyundai" to "the safety of driving one." And whatever the economy, Hyundai continues to pour resources into marketing.

Customers seem to be getting a new message about Hyundai. "Five years ago, Hyundai was known for its low prices, so-so quality, and a 100,000-mile power-train warranty," says an industry observer. "Today … Hyundai stands for softer, more positive qualities like smart, fresh, and high-tech." Sixty percent of U.S. consumers are now aware of the brand and are willing to buy it, up from 40 percent two years ago. Astonished Hyundai dealers are seeing consumers trade in Acura, BMW, and even Mercedes vehicles for the Hyundai Genesis and Equus models. "We're really eroding other brands," crows one dealer.

Thanks to its marketing hustle, improved quality, and aggressive tactics, Hyundai is now one of the world's recognizable major auto manufacturers. Its U.S. market share climbed to 4.4 percent in 2016, up from 3.1 percent in 2008. In 2011, J.D. Power ranked Hyundai seventh on its Annual Initial Quality Survey—right up there with Honda and Lexus, and well ahead of Toyota. By 2016, Hyundai had improved to 3rd rank. And its Azera topped the Large Car category in the 2016 AutoPacific Vehicle Satisfaction Award. "Fans show their loyalty in all kinds of ways," says one ad. "Ours just buy another Hyundai."

Thus, Hyundai has the right competitive marketing strategy for its customers, the changing economy, and the competitive marketplace. "Hyundai is for real," concludes an analyst. "Competitors hate them. Customers love them." By end 2015, Hyundai had sold over 10 million cars in the United States since its entry in 1986. Its Sonata and Elantra are the most popular models.[1]

Today's companies face their toughest competition ever. In previous chapters, we argued that to succeed in today's fiercely competitive marketplace, companies will have to move from a product-and-selling philosophy to a customer-and-marketing philosophy. John Chambers, former CEO of Cisco Systems put it well: "Make your customer the center of your culture."

This chapter discusses how companies can outperform competitors to win, keep, and grow customers. To win in today's marketplace, companies must become adept not only at *managing products*, but also at *managing customer relationships*, in the face of competition. Understanding customers is crucial, but it's not enough. Building profitable customer relationships and gaining **competitive advantage** requires delivering *more* value and satisfaction to target consumers than *competitors* do.

In this chapter, we examine *competitive marketing strategies*—how companies analyze their competitors and develop successful, value-based strategies for building and maintaining profitable customer relationships. The first step is **competitor analysis**—the process of identifying, assessing, and selecting key competitors. The second step is developing **competitive marketing strategies** that strongly position the company against competitors and give it the greatest possible competitive advantage.

Competitive advantage
An advantage over competitors gained by offering consumers greater value than competitors do.

Competitor analysis
The process of identifying key competitors; assessing their objectives, strategies, strengths and weaknesses, and reaction patterns; and selecting which competitors to attack or avoid.

Competitive marketing strategies
Strategies that strongly position the company against competitors and give the company the strongest possible strategic advantage.

Competitor Analysis

To plan effective marketing strategies, the company needs to find out about its competitors. It must constantly compare its marketing strategies, products, prices, channels, and promotion with those of close competitors. In this way, the company would be able to find areas of potential competitive advantage and disadvantage. As shown in **Figure 18.1**, competitor analysis involves identifying and assessing competitors, and selecting which competitors to attack or avoid.

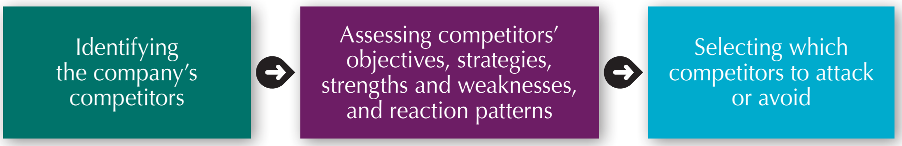
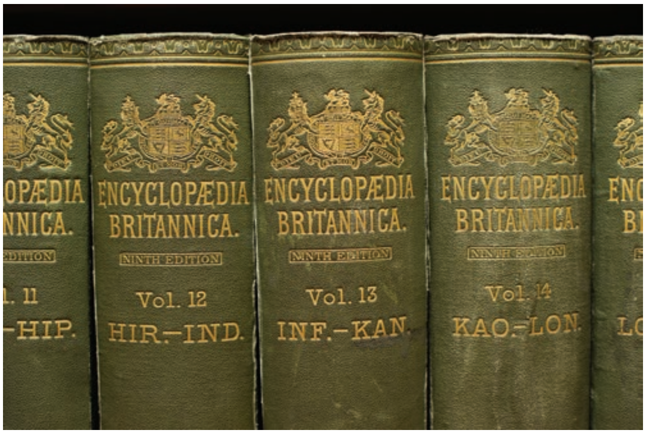


FIGURE 18.1
Steps in analyzing competitors

Identifying Competitors

At the narrowest level, a company can define its competitors as other companies offering similar products and services to the same customers at similar prices. Thus, Pepsi might view Coca-Cola as a major competitor, but not Qoo or Tiger Beer. Bookseller Kinokuniya might see Popular as a major competitor, but not Page One.

But companies actually face a much wider range of competitors. The company might define competitors as all firms making the same product or class of products. Thus, Shangri-La Hotel would see itself as competing against all other hotels. Even more broadly, competitors might include all companies making products that supply the same service. Here, Shangri-La Hotel would see itself competing not only against other hotels but also against anyone who supplies rooms for weary travelers. Finally, and still more broadly, competitors might include all companies that compete for the same consumer dollars. Here, Shangri-La Hotel would see itself competing with travel and leisure services, from cruises and summer homes to vacations abroad.



› Competitor myopia – *Encyclopædia Britannica* has to look beyond print media and see competition in the digital market.

Companies must avoid "competitor myopia." A company is more likely to be "buried" by its latent competitors than its current ones. For example, Kodak didn't lose out to competing film makers such as Fuji; it fell to the makers of digital cameras that use no film at all (see **Real Marketing 18.1**). Perhaps the classic example of competitor myopia is *Encyclopædia Britannica*:

For over 200 years, *Encyclopædia Britannica* saw itself as competing with other publishers of printed reference books and encyclopedia sets, selling for as much as $2,200 per set. However, it learned a hard lesson when the world went digital. Microsoft introduced *Encarta*, a CD-ROM encyclopedia that sold for only $50. *Encarta* and other digital encyclopedias took the market by storm, followed by Web-based encyclopedias and reference sources. Consequently, Britannica's sales plunged 50 percent during the next seven years. Thus, Britannica's real competitors were not other print publishers but the computer, the Internet, and digital content. While it still publishes its flagship 32-volume *Encyclopædia Britannica* and several other reference sets, it now offers popular DVD and Web versions of its information sources to compete with the likes of World Book, Microsoft, and Wikipedia.[2]

Companies can identify their competitors from the *industry* point of view (see **Figure 18.2**). They might see themselves as being in the oil industry, the pharmaceutical industry, or the beverage industry. A company must understand the competitive patterns in its industry if it hopes to be an effective "player" in that industry. Companies can also identify competitors from a *market* point of view. Here they define competitors as companies that are trying to satisfy the same customer need or build relationships with the same customer group.

FIGURE 18.2
Perspectives in identifying competition

From an industry point of view, Pepsi might see its competition as Coca-Cola, 7UP, and other carbonated drink makers. From a market point of view, however, what the customer really wants is "thirst quenching." This need can be satisfied by bottled water, sports drinks, fruit juice, or many other fluids. Similarly, Google once defined its competitors as other search engine providers such as Yahoo! or Bing. Now, Google takes a broader view of serving market needs for online and mobile access to the digital world. Under this market definition, Google squares off against once-unlikely competitors such as Apple, Samsung, Microsoft, and even Amazon and Facebook. By embracing the market concept of competition, it opens the company's eyes to a broader set of actual and potential competitors.

Assessing Competitors

Having identified the main competitors, marketing management now asks: What are competitors' objectives—what does each seek in the marketplace? What is each competitor's strategy? What are various competitors' strengths and weaknesses, and how will each react to actions the company might take?

Determining Competitors' Objectives

Each competitor has a mix of objectives. The company wants to know the relative importance that a competitor places on current profitability, market share growth, cash flow, technological leadership, service leadership, and other goals. Knowing a competitor's mix of objectives reveals whether the competitor is satisfied with its current situation and how it might react to different competitive actions. For example, a company that pursues low-cost leadership will react more strongly to a competitor's cost-reducing manufacturing breakthrough than to the same competitor's advertising increase.

A company also must monitor its competitors' objectives for various segments. If the company finds that a competitor has discovered a new segment, this might be an opportunity. If it finds that competitors plan new moves into segments now served by the company, it will be forewarned and, hopefully, forearmed.

Identifying Competitors' Strategies

The more one firm's strategy resembles another firm's strategy, the more the two firms compete. In most industries, the competitors can be sorted into groups that pursue different strategies. A **strategic group** is a group of firms in an industry following the same or a similar strategy in a given target market. For example, in the television set industry, Samsung and LG belong to the same strategic group. Each produces a full line of appliances supported by good service. In contrast, Pioneer belongs to a different strategic group. It produces a narrower line of high-quality appliances and charges a premium price.

Strategic group
A group of firms in an industry following the same or a similar strategy.

Some important insights emerge from identifying strategic groups. For example, if a company enters one of the groups, the members of that group become its key competitors. Thus, if the company enters the first group, against Samsung and LG, it can succeed only if it develops strategic advantages over these competitors.

Although competition is most intense within a strategic group, there is also rivalry among groups. First, some of the strategic groups may appeal to overlapping customer segments.

› **Strategic groups** – Pioneer offers a narrower line of high-quality electronics such as blu-ray-related products, home stereo systems, and car audio equipment. Its vision is to pursue innovation that provides pure emotional entertainment.

Real Marketing 18.1

Kodak:
The Competitor It Didn't See Soon Enough—No Film

Kodak. That venerable brand name has been a household word for generations worldwide. For more than a century, people relied on Kodak for products to help them capture "Kodak moments"—important personal and family events to be shared and recorded for posterity. The Hollywood movie industry evolved around Kodak technology. In 1972, Paul Simon even had a number two hit single called "Kodachrome," a song that put into words the emotional role that Kodak products played in people's lives.

Today, however, Kodak is bankrupt, a company working its way through Chapter 11 reorganization. Chapter 11 refers to a chapter of Title 11—having nine chapters—of the United States Bankruptcy Code, which allows for reorganization under the bankruptcy laws of the United States. Once ranked among the bluest of blue chips, Kodak's shares are now penny stocks. The brand that once monopolized its industry, capturing 85 percent of all camera sales and 90 percent of a huge film market, now struggles to compete in any market at all. Once rolling in cash, for the last four years Kodak has been losing $43 million a month. And once employing more than 100,000 people worldwide, the company's mostly U.S. workforce has now dwindled to less than 10,000 workers.

How could such a storied brand fall so far so fast? Kodak was victim to marketing and competitor myopia—focusing on a narrow set of current products and competitors rather than on underlying customer needs and emerging market dynamics. It wasn't competing film makers that brought Kodak down. It was the competitor Kodak didn't see soon enough—digital photography and cameras that used no film at all. All along, Kodak continued to make the very best film. But in an increasingly digital world, customers no longer needed film. Clinging to its legacy products, Kodak lagged behind competitors in making the shift to digital.

In 1880, George Eastman founded Kodak based on a method for dry-plate photography. In 1888, he introduced the Kodak camera, which used glass plates for capturing images. Looking to expand the market, Eastman next developed film and the innovative little Kodak Brownie film camera. He sold the camera for only $1 but reaped massive profits from the sale of film, along with the chemicals and paper required to produce photographs. Although Kodak also developed innovative imaging technologies for industries ranging from health care to publishing, throughout the twentieth century, cameras and film remained the company's massive cash cow.

Interestingly, way back in 1975, Kodak engineers invented the first digital camera—a toaster-sized image sensor that captured rough hues of black and white. However, failing to recognize the mass-market potential of digital photography, and fearing that digital technology would cannibalize its precious film business, Kodak shelved the digital project. Company managers simply could not envision a filmless world. So Kodak held fast to film and focused its innovation and competitive energies on making better film and out-innovating other film producers. When the company later realized its mistake, it was too late.

Blinded by its film fixation Kodak failed to see emerging competitive trends associated with capturing and sharing images. Kodak's culture became bound up in its history and the nostalgia that accompanied it. "They were a company stuck in time," says one analyst. "Their history was so important to them—this rich century-old history when they made a lot of amazing things and a lot of money along the way. [Then,] their history [became] a liability."

By the time Kodak finally introduced a line of pocket-sized digital cameras in the late 1990s, the market was already crowded with digital products from Sony, Canon, and a dozen other camera makers. That was soon followed by a completely new category of competitors, as more and more people began pointing-and-clicking their phones and other mobile devices and sharing photos instantly via texting, e-mail, and online photo-sharing networks. Late to the digital game, Kodak became a relic of the past and an also-ran to a host of new-age digital competitors that hadn't even existed a decade or two earlier.

Somewhere along the way, swelled with success, once-mighty Kodak lost sight of founder George Eastman's visionary knack for defining customer needs and competitor dynamics. According to one biographer, Eastman's legacy was not film; it was innovation. "George Eastman never looked back. He always looked forward to doing something better than what he had done, even if he had the best on the market at the time." If it had retained Eastman's philosophy, Kodak might well have been the market leader in digital technologies. We might all still be capturing "Kodak moments" on Kodak digital cameras and smartphones and sharing them on Kodak-run online sites and image-sharing social networks.

As Kodak emerges from bankruptcy, given the strength of the Kodak brand name, those things could still happen. But it's not likely. As a part of its bankruptcy plan, Kodak announced that it will stop making digital cameras (it has also discontinued its famous Kodachrome color film). Instead, it plans to license its name to other manufacturers that will make cameras under the Kodak brand. Some three-fourths of the company's revenues will now come from business segments, such as commercial digital printing and entertainment films. So, along with the company's fortunes, it looks as though the famed "Kodak moment" may have now passed into history.

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› **Competitor myopia** – It wasn't competing film makers that brought Kodak down. It was the competitor Kodak didn't see soon enough—digital photography and cameras that used no film at all.

For example, no matter what their strategy, all television set manufacturers will go after the apartment and homebuilders segment. Second, the customers may not see much difference in the offers of different groups—they may see little difference in quality between Samsung and Sony. Finally, members of one strategic group might expand into new strategy segments.

The company needs to look at all of the dimensions that identify strategic groups within the industry. It must understand how each competitor delivers value to its customers. It needs to know each competitor's product quality, features, and mix; customer services; pricing policy; distribution coverage; sales force strategy; and advertising and sales promotion programs. And it must study each competitor's R&D, manufacturing, purchasing, financial, and other strategies.

Assessing Competitors' Strengths and Weaknesses

Marketers need to assess each competitor's strengths and weaknesses carefully to answer the critical question: What *can* our competitors do? As a first step, companies can gather data on each competitor's goals, strategies, and performance over the past few years. Some of this information will be hard to obtain. For example, business-to-business marketers find it hard to estimate competitors' market shares because they do not have the same syndicated data services that are available to consumer packaged-goods companies.

Companies normally learn about their competitors' strengths and weaknesses through secondary data, personal experience, and word of mouth. They can also conduct primary marketing research with customers, suppliers, and dealers. Or they can **benchmark** themselves against other firms, comparing the company's products and processes to those of competitors or leading firms in other industries to find ways to improve quality and performance. Benchmarking has become a powerful tool for increasing a company's competitiveness.

Benchmarking
The process of comparing the company's products and processes to those of competitors or leading firms in other industries to find ways to improve quality and performance.

Estimating Competitors' Reactions

Next, the company wants to know: What *will* our competitors do? A competitor's objectives, strategies, and strengths and weaknesses may explain its likely actions. They also suggest its likely reactions to company moves such as price cuts, promotion increases, or new-product introductions. In addition, each competitor has a certain philosophy of doing business, a certain internal culture and guiding beliefs. An understanding of a competitor's mentality helps marketing managers anticipate how the competitor will act or react.

Each competitor reacts differently. Some do not react quickly or strongly to a competitor's move. They may feel their customers are loyal; they may be slow in noticing the move; they may lack the funds to react. Some competitors react only to certain types of moves and not to others. Other competitors react swiftly and strongly to any action. For example, Procter & Gamble does not let a new detergent come easily into the market. Many firms avoid direct competition with P&G and look for easier prey, knowing that P&G will react fiercely if challenged.

In some industries, competitors live in relative harmony; in others, they fight constantly. Knowing how major competitors react gives the company clues on how best to attack competitors or how best to defend the company's current position.

› Assessing competitors' strengths _ Trade shows like the annual Consumer Electronics Show provide an arena for companies to "check out" what their competitors are offering.

Selecting Competitors to Attack and Avoid

A company has already largely selected its major competitors through prior decisions on customer targets, distribution channels, and marketing-mix strategy. Management must now decide which competitors to compete against most vigorously.

Strong or Weak Competitors

The company can focus on one of several classes of competitors. Most companies prefer to compete against *weak competitors*. This requires fewer resources and less time. But in the process, the firm may gain little. The firm can also compete with *strong competitors* to sharpen its abilities. Strong competitors also have some weaknesses, and succeeding against them often provides greater returns.

A useful tool for assessing competitor strengths and weaknesses is **customer value analysis**. The aim of customer value analysis is to determine the benefits that targeted customers value and how customers rate the relative value of various competitors' offers. In conducting a customer value analysis, the company first identifies the major attributes that customers value and the importance customers place on these attributes. Next, it assesses the company's and competitors' performance on the valued attributes.

The key to gaining competitive advantage is to take each customer segment and examine how the company's offer compares to that of its major competitor. The company wants to find the "strategic sweet spot"—the place where it meets customers' needs in a way that rivals can't. If the company's offer delivers greater value by exceeding the competitor's offer on all important attributes, the company can charge a higher price and earn higher profits, or it can charge the same price and gain more market share. But if the company is seen as performing at a lower level than its major competitor on some important attributes, it must invest in strengthening those attributes or finding other important attributes where it can build a lead on the competitor.

Customer value analysis
Analysis conducted to determine what benefits target customers value and how they rate the relative value of various competitors' offers.

❯ To gain competitive advantage, a company must find the sweet spot where it satisfies consumer needs better than its rivals.

Close or Distant Competitors

Most companies will compete with *close competitors*—those that resemble them most—rather than *distant competitors*. Thus, Nike competes more against adidas than against Timberland. And Lexus competes more with Mercedes rather than Hyundai.

At the same time, the company may want to avoid trying to "destroy" a close competitor. For example, in the late 1970s, Bausch & Lomb moved aggressively against other soft lens manufacturers with great success. However, this forced weak competitors to sell out to larger firms such as Johnson & Johnson. As a result, Bausch & Lomb now faces much larger competitors—and it has suffered the consequences. Johnson & Johnson acquired Vistakon, a small nicher with only $20 million in annual sales. Backed by J&J deep pockets, however, the small but nimble Vistakon developed and introduced its innovative Acuvue disposable lenses.[3] In this case, success in hurting close rivals brought in tougher competitors.

"Good" or "Bad" Competitors

The existence of competitors results in several strategic benefits. Competitors may help increase total demand. They may share the costs of market and product development and help to legitimize new technologies. They may serve less-attractive segments or lead to more product differentiation. Finally, competition may help increase total demand.

For example, you may think that Apple's introduction of its stylish and trendy iPad tablet would have spelled trouble for Amazon's smaller, dowdier Kindle e-reader, which had been on the market for three years prior to iPad's debut. Many analysts thought that Apple had created the "Kindle killer." However, as it turns out, the competing iPad created a stunning surge in tablet demand that benefited both companies. Kindle e-reader sales increased sharply with the iPad introduction, and new tablet demand spurred Amazon to introduce its own full line of Kindle tablets. As an added bonus, the surge in iPad usage increased Amazon's sales of e-books and other digital content, which can be read on the iPad using a free Kindle for iPad app. The increased tablet demand also opened the market to new competitors such as Samsung, Google, and Microsoft.

However, a company may not view all its competitors as beneficial. An industry contains *good competitors* and *bad competitors*. Good competitors play by the rules of the industry. Bad competitors break the rules. They try to buy share rather than earn it, take large risks, and play by their own rules.

Finding Uncontested Marketspaces

Rather than competing head to head with established competitors, many companies seek out unoccupied positions in uncontested marketspaces. They try to create products and services for which there are *no* direct competitors. Called the "blue ocean strategy," the goal is to make competition irrelevant.[4]

Companies engaging in head-to-head competition in search of profitable growth, have flocked for competitive advantage, battled over market share, and struggled for differentiation. Yet, in today's overcrowded industries, competing head-on results in a bloody "red ocean" of rivals fighting over a shrinking profit pool. In their book, *Blue Ocean Strategy*, two professors contend that although most companies compete within such red oceans, the strategy isn't likely to create profitable growth in the future. Tomorrow's leading companies will succeed not by battling competitors but by creating "blue oceans" of uncontested marketspace. Such strategic moves—termed "value innovation"—create powerful leaps in value for both the firm and its buyers, creating all-new demand and rendering rivals obsolete. By creating and capturing blue oceans, companies can largely take rivals out of the picture.

› Good and bad competitors – Rather than spelling trouble for Amazon's Kindle, the introduction of Apple's iPad created a surge in demand that benefited not only Amazon but also other tablet competitors, like Samsung, Google, and Microsoft.

An example of a company that exhibits blue ocean thinking is Cirque du Soleil, which reinvented the circus as a higher form of modern entertainment. At a time when the circus industry was declining, Cirque du Soleil innovated by eliminating high cost and controversial elements such as animal acts. Instead, it focused on the theatrical experience. Cirque du Soleil did not compete with the then market leaders, Ringling Brothers and Barnum & Bailey—it was altogether different from anything that preceded it. Instead, it created an uncontested new marketspace that made existing competitors irrelevant. The results have been spectacular. Thanks to its blue ocean strategy, Cirque du Soleil achieved greater revenue in its first 20 years than Ringling Brothers and Barnum & Bailey achieved in their first 100 years.

❯ "Blue ocean" strategies – Cirque du Soleil reinvented the circus, finding an uncontested marketspace that created new demand and rendered rivals irrelevant.

Designing a Competitive Intelligence System

We have described the main types of information that companies need about their competitors. This information must be collected, interpreted, distributed, and used. The cost in terms of money and time of gathering competitive intelligence is high, and the company must design its competitive intelligence system in a cost-effective way.

The competitive intelligence system first identifies the vital types of competitive information and the best sources of this information. Then, the system continuously collects information from the field (sales force, channels, suppliers, market research firms, trade associations, Web sites) and from published data (government publications, speeches, articles). Next, the system checks the information for validity and reliability, interprets it, and organizes it in an appropriate way. Finally, it sends key information to relevant decision makers and responds to inquiries from managers about competitors.

With this system, company managers can receive timely information about competitors in the form of phone calls, emails, bulletins, newsletters, and reports. In addition, managers can connect with the system when they need an interpretation of a competitor's sudden move, or when they want to know a competitor's weaknesses and strengths, or when they need to know how a competitor will respond to a planned company move.

Competitive Strategies

Having identified and evaluated its major competitors, the company must now design broad competitive marketing strategies that can help it gain competitive advantage through superior customer value. But what broad marketing strategies might the company use? Which ones are best for a particular company, or for the company's different divisions and products?

Approaches to Marketing Strategy

No one strategy is the best for all companies. Each company must determine what makes the most sense given its position in the industry and its objectives, opportunities, and resources. Even within a company, different strategies may be required for different businesses or products. Johnson & Johnson uses one marketing strategy for its leading brands in stable consumer markets—such as BAND-AIDs, Listerine, or J&J's baby products—and a different marketing strategy for its high-tech health care businesses and products—such as Monocryl surgical sutures or NeuFlex finger joint implants.

Companies also differ in how they approach the strategy-planning process. Many large firms develop formal competitive marketing strategies and implement them religiously. However, other companies develop strategies in a less formal and orderly fashion. Some companies, such as, Virgin Atlantic Airways and BMW's MINI unit succeed by breaking many of the "rules" of marketing strategy. Such companies don't operate large marketing departments, conduct expensive marketing research, spell out elaborate competitive strategies, nor do they spend huge sums on advertising. Instead, they sketch out strategies on the fly, stretch their limited resources, live close to their customers, and create more satisfying solutions to customer needs. They form buyer's clubs, use buzz marketing, and focus on winning customer loyalty. Not all marketing must follow in the footsteps of marketing giants such as Procter & Gamble.

› Strategy-planning process – Some companies such as Virgin Atlantic Airways break many of the "rules" of marketing strategy and succeed.

In fact, approaches to marketing strategy and practice often pass through three stages: entrepreneurial marketing, formulated marketing, and intrepreneurial marketing.[5]

- *Entrepreneurial marketing*. Most companies are started by individuals who live by their wits. They visualize an opportunity, construct flexible strategies on the backs of envelopes, and knock on every door to gain attention.
- *Formulated marketing*. As small companies achieve success, they inevitably move toward more-formulated marketing. They develop formal marketing strategies and adhere to them closely.
- *Intrepreneurial marketing*. Many large and mature companies get stuck in formulated marketing. They pore over market research reports, and try to fine-tune their competitive strategies and programs. These companies sometimes lose the marketing creativity and passion that they had at the start. They need to re-establish the entrepreneurial spirit and actions that made them successful in the first place. They need to encourage more initiative and "intrepreneurship" at the local level. They need to refresh their marketing strategies and try new approaches. Their brand and product managers need to get out of the office, start living with their customers, and visualize new and creative ways to add value to their customers' lives.

The bottom line is that there are many approaches to developing an effective and competitive marketing strategy. There will be constant tension between the formulated side of marketing and the creative side. It is easier to learn the formulated side of marketing, which has occupied most of our attention in this book. However, we have also seen how marketing creativity and passion in the strategies of many of the companies we've studied have helped build and maintain success in the marketplace. With this in mind, we now look at broad competitive marketing strategies which companies can use.

Basic Competitive Strategies

Michael Porter suggested four basic competitive positioning strategies that companies can follow—three winning strategies and one losing strategy.[6] The three winning strategies are:

- *Overall cost leadership*. Here the company works hard to achieve the lowest production and distribution costs. Low costs allow it to price lower than its competitors and win a large market share. Dell and Singapore Airlines are leading practitioners of this strategy.
- *Differentiation*. Here the company concentrates on creating a highly differentiated product line and marketing program so that it comes across as the class leader in the industry. Most customers would prefer to own this brand if its price is not too high. Samsung and Li & Fung follow this strategy in consumer electronics and supply chain, respectively.
- *Focus*. Here the company focuses its efforts on serving a few market segments well rather than going after the whole market. For example, when entering the United States, Chinese electronics giant Haier chose to focus on college students who were interested in buying small-sized refrigerators, rather than compete against General Electric or Whirlpool for the whole market.

Companies that pursue a clear strategy—any of the above—will likely perform well. The firm that carries out that strategy best will make the most profit. But firms that do not pursue a clear strategy—*middle-of-the-roaders*—do the worst. Holiday Inn encountered difficult times because it did not stand out as the lowest in cost, highest in perceived value, or best in serving some market segment. Middle-of-the-roaders try to be good on all strategic counts, but end up not being very good at anything.

Michael Treacy and Fred Wiersema have offered new classifications of competitive marketing strategies.[7] They suggest that companies gain leadership positions by delivering superior value to their customers. Companies can pursue any of three strategies—called *value disciplines*—for delivering superior customer value. These are:

- *Operational excellence*. The company provides superior value by leading its industry in price and convenience. It works to reduce costs and to create a lean and efficient value delivery system. It serves customers who want reliable, good-quality products or services, but who want them cheaply and easily. Examples include Wal-Mart and AirAsia.
- *Customer intimacy*. The company provides superior value by precisely segmenting its markets and tailoring its products or services to match exactly the needs of targeted customers. It specializes in satisfying unique customer needs through a close relationship with and intimate knowledge of the customer. It builds detailed customer databases for segmenting and targeting, and empowers its marketing people to respond quickly to customer needs. Customer-intimate companies serve customers who are willing to pay a premium to get precisely what they want. They will do almost anything to build long-term customer loyalty and to capture customer lifetime value. Examples include Lexus and Amazon.com.
- *Product leadership*. The company provides superior value by offering a continuous stream of leading-edge products or services. It aims to make its own and competing products obsolete. Product leaders are open to new ideas, relentlessly pursue new solutions, and work to get new products to market quickly. They serve customers who want state-of-the-art products and services, regardless of the costs in terms of price or convenience. Examples include Apple and Microsoft.


› **Customer intimacy** – Companies provide superior value by tailoring its products or services to match exactly the needs of targeted customers.

Some companies successfully pursue more than one value discipline at the same time. For example, FedEx excels at both operational excellence and customer intimacy. However, such companies are rare—few firms can be the best at more than one of these disciplines. By trying to be *good at all* of the value disciplines, a company usually ends up being *best at none*.

Treacy and Wiersema found that leading companies focus on and excel at a single value discipline, while meeting industry standards on the other two. Such companies design their entire value delivery network to single-mindedly support the chosen discipline. For example, Wal-Mart knows that customer intimacy and product leadership are important. Compared with other discounters, it offers very good customer service and an excellent product assortment. Still, it purposely offers less customer service and less product depth than high-end retailers which pursue customer intimacy. Instead, Wal-Mart focuses obsessively on operational excellence—on reducing costs and streamlining its order-to-delivery process to make it convenient for customers to buy just the right products at the lowest prices.

Classifying competitive strategies as value disciplines is appealing. It defines marketing strategy in terms of the single-minded pursuit of delivering superior value to customers. Each value discipline defines a specific way to build lasting customer relationships.

Competitive Positions

Firms competing in a given target market, at any point in time, differ in their objectives and resources. Some firms are large, others small. Some have many resources, others are strapped for funds. Some are mature and established, others new and fresh. Some strive for rapid market share growth, others for long-term profits. And the firms occupy different competitive positions in the target market.

We now examine competitive strategies based on the roles firms play in the target market—leader, challenger, follower, or nicher. Suppose that an industry contains the firms shown in **Figure 18.3**. Some 40 percent of the market lies in the hands of the **market leader**—the firm with the largest market share. Another 30 percent lies in the hands of **market challengers**—runner-up firms that fight hard to increase their market share. Another 20 percent lies in the hands of **market followers**—other runner-up firms that want to hold their share without rocking the

Market leader
The firm in an industry with the largest market share.

Market challenger
A runner-up firm that is fighting hard to increase its market share in an industry.

Market follower
A runner-up firm that wants to hold its share in an industry without rocking the boat.

boat. The remaining 10 percent lies in the hands of **market nichers**—firms that serve small segments not being pursued by other firms.

Market nicher
A firm that serves small segments that the other firms in an industry overlook or ignore.

FIGURE 18.3
Competitive market positions and roles

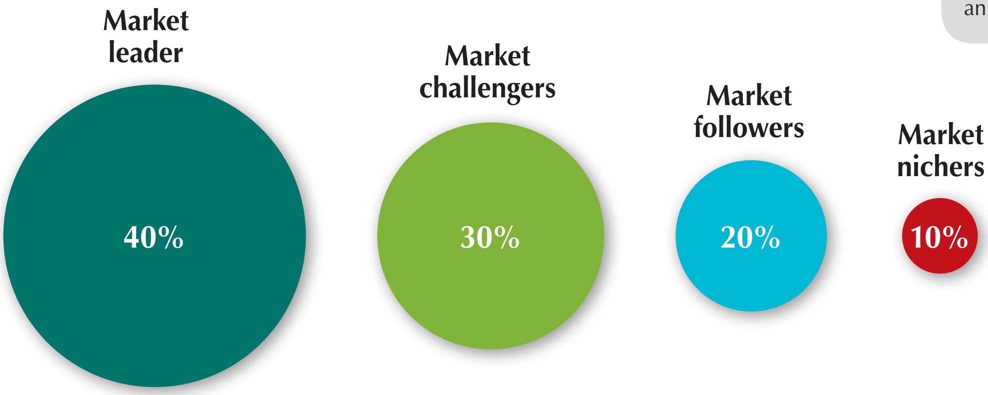


Table 18.1 shows specific marketing strategies that are available to market leaders, challengers, followers, and nichers.[8] Remember, however, that these classifications often do not apply to a whole company, but only to its position in a specific industry. Large companies such as Lenovo, Procter & Gamble, or Hyundai might be leaders in some markets and nichers in others. For example, P&G leads in many segments, such as laundry detergents and shampoo. But it challenges Unilever in hand soaps and Kimberly-Clark in facial tissues. While P&G may be a market leader in several countries, it is a challenger to Hindustan Unilever in India. Such companies often use different strategies for different business units or products, depending on the competitive situations of each.

TABLE 18.1 Strategies for Market Leaders, Challengers, Followers, and Nichers

Market Leader Strategies	Market Challenger Strategies	Market Follower Strategies	Market Nicher Strategies
■ Expand total market ■ Protect market share ■ Expand market share	■ Full frontal attack ■ Indirect attack	■ Follow closely ■ Follow at a distance	■ Specialize by customer, market, quality–price, service ■ Multiple niching

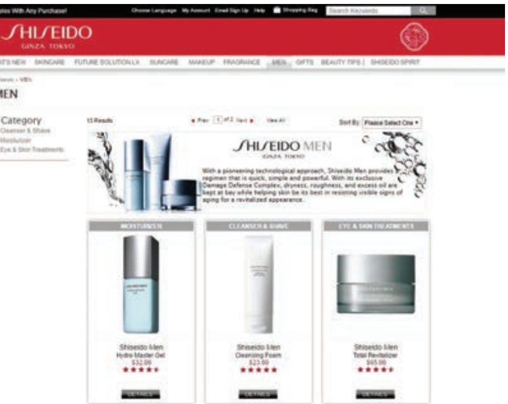
Market Leader Strategies

Most industries have an acknowledged market leader. The leader has the largest market share and usually leads the other firms in price changes, new-product introductions, distribution coverage, and promotion spending. Competitors focus on the leader as a company to challenge, imitate, or avoid. Some of the best-known market leaders are Toyota (automobile), Microsoft (computer software), Nintendo (home video game), McDonald's (fast food), adidas (athletic footwear), and Google (Internet search services).

A leader must constantly be on the watch. Other firms are constantly challenging its strengths or trying to take advantage of its weaknesses. The market leader can easily miss a turn in the market and plunge to second or third place. A product innovation may come along and hurt the leader (as when Apple developed the iPod and took the market lead from Sony's Walkman portable audio devices). The leader might grow arrogant or complacent and misjudge the competition (as when Nintendo underestimated Sony's PlayStation before regaining its leadership via the Wii and Pokemon Go). Or the leader might look old-fashioned against newer and preppier rivals (as when Levi's lost serious ground to more current or stylish brands such as Guess).

Sony – Many say that Sony has lost its knack for innovation. Its core strategy is to build online revenues to replace income from appliances such as television sets and MP3 players, where it is losing market share. To do that, Sony needs to offer attractive products that will lure consumers to buy them. However, Sony, once the revolutionary force whose products such as the Walkman music player were part of mainstream culture, seems to have lost its creative corporate culture. Compared to Apple with its iPhone and iPad, or Samsung with its stylish television designs, each defining their respective product category, Sony has yet to offer a slew of products that will drive growth. Hence, it has lost its leadership position in several segments of the consumer electronics market.[9]

New users – Shiseido has expanded into a new market—skin care products for men.



To remain number one, leading firms can take any of three actions:

- They can find ways to expand total demand.
- They can protect their current market share through good defensive and offensive actions.
- They can try to expand their market share further, even if market size remains constant.

Expanding Total Demand

The leading firm normally gains the most when the total market expands. If drivers purchase more hybrid automobiles, Toyota stands to gain the most because it sells the largest share of hybrids. If Toyota can convince more drivers that hybrid cars are more economical and more environmentally friendly, it will benefit more than its competitors.

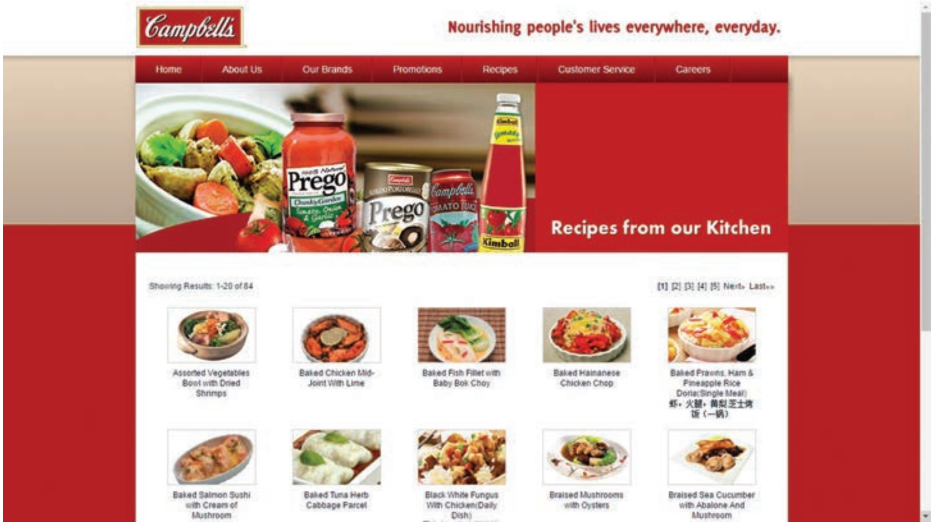
Market leaders can expand the market by developing new users, new uses, and more usage of their products. They can usually find *new users* or untapped market segments in many places. For example, Shiseido might find new skin care users within its current markets by convincing women who do not use skin care to try it. It might find users in new demographic segments, such as by introducing skin care for men. Or it might expand into new geographic segments, perhaps by selling its skin care products in other countries.

To encourage more usage, Velcro demonstrated innovative ways to use its product, including to tie up unsightly electronic cables, to hold plants upright, and to bundle up fishing rods.

Marketers can expand markets by discovering and promoting *new uses* for the product. For example, in a campaign to increase product usage, Velcro showcased the amazing ways that consumers can use its hook-and-loop fasteners in their daily lives—around the home or office, in the garden, or for craft and do-it-yourself projects. One ad showes how a gadget geek uses Velcro One-Wrap ties to organize all thsoe wires behind his desk, while a gardener uses them to hold orchids upright. Pinterest sites are also loaded with imaginative new uses such as a guide on Pinterest for making Velcro jewelry.

Finally, market leaders can encourage *more usage* by convincing people to use the product more often or to use more per occasion. For example, Campbell urges Hong Kongers and Singaporeans to drink soup and other Campbell products more often by running ads containing new recipes. The Campbell's

Kitchen section of the company's Web site (www.campbellsoup.com.hk) lets visitors search for or exchange recipes.



› Creating more usage – Campbell urges its Asian users to make soup and other products more often by featuring new recipes on its Web site.

Protecting Market Share

While trying to expand total market size, the leading firm must also protect its current business against competitors' attacks. Apple must constantly guard against Samsung; Mercedes against BMW; and McDonald's against Burger King.

Samsung – In October 2011, Samsung became the leader in the mobile phone market, beating Apple's iPhone in the smartphone segment. This success came after it launched its line of Galaxy S smartphones with a huge marketing budget to compete effectively. In response, Apple went on the offensive to protect its market share. It sued Samsung, claiming that the Galaxy line of mobile phones and tablets "slavishly" copies the iPhone and iPad. It accused Samsung of infringing patents related to the way the Galaxy devices operate, including the use of hand gestures on the screen, as well as patents on the color and rectangular shape of the iPhone and iPad. In a tit-for-tat display of retaliation, Samsung countersued and claimed that Apple had infringed 10 of its patents, including 3G technology, for reducing errors during data transmission and wireless data communication technology. Apple is Samsung's largest customer for liquid crystal display panels and semiconductors. Although Samsung is its valued supplier, Apple feels that Samsung has crossed the line by flouting the law when competing against it.[10]

› Companies are very protective of their market share. When Samsung introduced its Galaxy S line of smartphones to compete against Apple's iPhone, Apple took action decisively by suing Samsung for patent infringement. Samsung countersued that Apple had infringed on its technology.

What can the market leader do to protect its position? First, it must prevent or fix weaknesses that provide opportunities for competitors. It must always fulfill its value promise. Its prices must remain consistent with the value that customers see in the brand. It must work tirelessly to maintain strong relationships with valued customers. The leader should "plug holes" so that competitors do not jump in.

But the best defense is a good offense, and the best response is *continuous innovation*. The leader refuses to be content with the way things are and leads the industry in new products, customer services, distribution effectiveness, and cost-cutting. It keeps increasing its competitive effectiveness and value to customers.

Expanding Market Share

Market leaders can also grow by further increasing their market shares. Studies have shown that, on average, profitability rises with increasing market share. Because of these findings, many companies have sought to expand their market shares to improve profitability. General Electric, for example, wants to be at least number one or two in each of its markets or else to get out. GE shed its computer, air-conditioning, small appliances, and television businesses because it could not achieve top-dog positions in those industries.

However, some studies have found that many industries contain one or a few highly profitable large firms, several profitable and more focused firms, and a large number of medium-sized firms with poorer profit performance. It appears that profitability increases as a business gains share relative to competitors in its *served market*. For example, Lexus holds only a small share of the total car market, but it earns high profits because it is the leading brand in the luxury-performance car segment. And it achieved this high share in its served market because it does things right, such as producing high-quality products, creating good service experiences, and building close customer relationships.

Companies must not think, however, that gaining an increase in market share will automatically improve profitability. Much depends on their strategy for gaining increased share. There are many high-share companies with low profitability and many low-share companies with high profitability. The cost of buying higher market share may far exceed the returns. Higher shares tend to produce higher profits only when unit costs fall with increased market share, or when the company offers a superior-quality product and charges a premium price that more than covers the cost of offering higher quality.

› Market challenger strategies – A market challenger can attack the market leader with the goal of taking over market leadership. Canon took a large chunk of Xerox's market by launching desk copiers developed with its original technologies.

Market Challenger Strategies

Firms that are second, third, or lower in an industry are sometimes quite large, such as Honda, Darlie, Avis, and Pepsi. These runner-up firms can adopt one of two competitive strategies: They can challenge the leader and other competitors in an aggressive bid for more market share (market challengers); or they can play along with competitors and not rock the boat (market followers).

A market challenger must first define which competitors to challenge and its strategic objective. The challenger can attack the market leader, a high-risk but potentially high-gain strategy. Its goal might be to take over market leadership. Xerox assumed leadership of the copier market from 3M by developing a better copying process. Later, Canon took a large chunk of Xerox's market by launching desk copiers. Or the challenger's objective may simply be to wrest more market share. Although it might seem that the market leader has the most going for it, challengers often have what some strategists call a "second-mover advantage." The challenger observes what has made the leader successful and improves upon it.

Asian companies have typically followed this path to competitive success. Japanese car makers like Toyota and Honda studied and improved on the designs of their American rivals to wrest market share away from them. In turn, Korean automakers such as Kia and Hyundai made big gains in the market with better designs than their Japanese, American, and German rivals. Consider Kia:

Kia – After years of turning out generic knock-offs of Japanese best-sellers, Kia began its design awakening in 2006 when it hired Audi head designer Peter Schreyer. Schreyer established a distinct Kia face in the "tabbed" grille which appeared on Kia's Kee concept car. Kia's design theme is "simplicity with precision," embodied in its Optima model, which has a silhouette that is recognizable from a long distance. Schreyer wanted the car to appear low, with a coupe-like profile; the rearmost roof pillar is particularly low, making the entire car seem longer and wider. An arch of chrome sweeps over the roof and attaches to the rear glass in a totally new way. Another characteristic line runs from the headlamps to the rear deck. The complex interplay of lines and curves, creating highlights and shadows around the Optima's roof, helps to hold a viewer's interest beyond a simple glance. There is much flexibility in the Kia design language. The mid-sized Optima is aimed at a very different segment from that of the Soul, a small but boldly designed youth-oriented "urban utility" vehicle, but both share the same tabbed grille. The Sportage's "spearing shoulder line," grille, and headlights show its family ties with the Optima. [11]

› From imitator to innovator – Kia and its award-winning Optima model.

Alternatively, the challenger can avoid the leader and instead challenge firms its own size, or smaller local and regional firms. These smaller firms could be underfinanced and not serving their customers well. Several international beer companies are buying stakes in regional Chinese breweries to penetrate the China market. Belgium's Interbrew bought several breweries near Shanghai to gain share in Guangdong and Zhejiang, two of China's richest provinces. The challenger must choose its opponents carefully and have a clearly defined and attainable objective.

How can the market challenger best attack the chosen competitor and achieve its strategic objectives? There are several strategies available:

- *Frontal attack*. It may launch a full frontal attack, matching the competitor's product, advertising, price, and distribution efforts. It attacks the competitor's strengths rather than its weaknesses. The outcome depends on who has the greater strength and endurance. If the market challenger has fewer resources than the competitor, a frontal attack makes little sense.
- *Indirect attack*. Rather than challenging head-on, the challenger can make an indirect attack on the competitor's weaknesses or on gaps in the competitor's market coverage. For example, when Red Bull entered the soft drink market in the United States, it tackled Coca-Cola and PepsiCo indirectly by selling a high-priced niche product in nontraditional distribution points. It began by

❯ When it entered the U.S. market, rather than attacking market leaders Coca-Cola and Pepsi directly, Red Bull used indirect, unconventional marketing approaches.

selling via unconventional outlets that were under the radar of the market leaders, such as nightclubs and bars where young revelers gulped down their caffeine fix so that they could go all night. Once it had built a core customer base, the brand expanded into more traditional outlets. Red Bull also used a collection of guerrilla marketing tactics rather than the high-cost traditional media used by the market leaders. The indirect approach worked as Red Bull captured almost 50 percent share of the energy drink market.

Market Follower Strategies

Not all runner-up companies want to challenge the market leader. Challengers are never taken lightly by the leader. If the challenger's lure is lower prices, improved service, or additional product features, the leader can quickly match these to defuse the attack. The leader probably has more staying power in an all-out battle for customers. Thus, many firms prefer to follow rather than challenge the leader as the following example shows:

> **Acer** – This Taiwanese firm tried to compete directly with top-tier PC makers like IBM and Dell on American soil for years but suffered significant losses. While its products were generally praised for quality, price, and innovation, it was hampered by marketing and distribution. It had a limited advertising budget and its sales on the corporate market were spread out across a number of segments, without being a leader in any. Eventually, Acer concentrated more on Asia and Europe. It felt that it had an advantage over mainland Chinese PC makers as it was perceived as being more international than them. Acer felt it could compete with international PC makers in China because it was perceived to be more "local" than them.

A follower can gain many advantages. The market leader often bears the huge expenses of developing new products and markets, expanding distribution, and educating the market. By contrast, as with challengers, the market follower can learn from the leader's experience. It can copy or improve on the leader's products and programs, usually with much less investment. Although the follower will probably not overtake the leader, it often can be as profitable.

Following is not the same as being passive or a carbon copy of the leader. A market follower must know how to hold current customers and win a fair share of new ones. It must find the right balance between following closely enough to win customers from the market leader, but following at enough of a distance to avoid retaliation. Each follower tries to bring distinctive advantages to its target market—location, services, financing. The follower is often a major target of attack by challengers. Therefore, the market follower must keep its manufacturing costs and prices low or its product quality and services high. It must also enter new markets as they open up.

Market Nicher Strategies

Almost every industry includes firms that specialize in serving market niches. Instead of pursuing the whole market, or even large segments, these firms target subsegments. Nichers are often smaller firms with limited resources. But smaller divisions of larger firms also may pursue niching strategies. Firms with low shares of the total market can be highly successful and profitable through smart niching as the following example from the Philippines shows:

Jollibee – McDonald's has a major competitor in Jollibee in the Philippines. In terms of global market share, Jollibee is dwarfed by the American giant. But in its niche, the Philippines, where it concentrates its limited resources, Jollibee owns a 75 percent share of the hamburger market by serving the unique tastes of local consumers. Sweet, spicy burgers and seasoned chicken and spaghetti with sweet sauce are offered with rice or noodles, not French fries. Its mascot, the Jolly Bee, epitomizes the Filipino spirit of light-hearted, everyday happiness. And the Jollibee staff outsmile those of McDonald's.

› **Nicher** – Jollibee is king of the burger market in the Philippines. The Jollibee burger is similar to "what a Filipino mother would cook at home."

Why is niching profitable? The main reason is that the market nicher ends up knowing the target customer group so well that it meets their needs better than other firms that casually sell to that niche. As a result, the nicher can charge a substantial markup over costs because of the added value. Whereas the mass marketer achieves high volume, the nicher achieves high margins.

Nichers try to find one or more market niches that are safe and profitable. An ideal market niche is big enough to be profitable and has growth potential. It is one that the firm can serve effectively. Perhaps most importantly, the niche is of little interest to major competitors. And the firm can build the skills and customer goodwill to defend itself against a major competitor as the niche grows and becomes more attractive. For example, computer mouse and interface device maker Logitech is only a fraction of the size of Microsoft. Yet, through skillful niching, it dominates the PC mouse market, with Microsoft as its runner-up.

The key idea in niching is specialization. A market nicher can specialize along any of several markets, customer, product, or marketing mix lines. For example, it can specialize in serving one type of *end user*, as when a law firm specializes in the criminal, civil, or business law markets. The nicher can specialize in serving a given *customer-size* group. Many nichers specialize in serving small- and mid-size customers who are neglected by the major companies.

Some nichers focus on one or a few *specific customers*, selling their entire output to a single company. Still other nichers specialize by *geographic market*, selling only in a certain locality, region, or area of the world. *Quality–price* nichers operate at the low or high end of the market. For example, Hewlett-Packard specializes in the high-quality, high-price end of the hand-calculator market. Finally, *service* nichers offer services not available from other firms.

Niching carries some major risks. For example, the market niche may dry up, or it might grow to the point that it attracts larger competitors. That is why many companies practice *multiple niching*. By developing two or more niches, a company increases its chances for survival. Even some large firms prefer a multiple niche strategy to serving the total market. For example, apparel maker VF Corporation markets more than 30 lifestyle brands in niche markets ranging from jeanswear, sportswear, and contemporary styles to outdoor gear and workwear. VF's Vans unit creates footwear, apparel, and accessories for skate and surf boarders. Its 7-for-All-Mankind brand offers premium denim and accessories sold in boutiques. In contrast, the company also has brands that sell uniforms and protective apparel for businesses and public agencies.

Balancing Customer and Competitor Orientations

Whether a company is a market leader, challenger, follower, or nicher, it must watch its competitors closely and find the competitive marketing strategy that positions it most effectively. And it must continually adapt its strategies to the fast-changing competitive environment. This question now arises: Can the company spend *too* much time and energy tracking competitors, damaging its customer orientation? The answer is yes! A company can become so competitor-centered that it loses its even more important focus on maintaining profitable customer relationships.

Competitor-centered company
A company whose moves are based mainly on competitors' actions and reactions.

Customer-centered company
A company that focuses on customer developments in designing its marketing strategies and on delivering superior value to its target customers.

Market-centered company
A company that pays balanced attention to both customers and competitors in designing its marketing strategies.

A **competitor-centered company** is one that spends most of its time tracking competitors' moves and market shares and trying to find strategies to counter them. This approach has some pluses and minuses. On the positive side, the company develops a fighter orientation, watches for weaknesses in its own position, and searches out competitors' weaknesses. On the negative side, the company becomes too reactive. Rather than carrying out its own customer relationship strategy, it bases its own moves on competitors' moves. As a result, it may end up simply matching or extending industry practices rather than seeking new innovative ways to create more value for customers.

A **customer-centered company**, by contrast, focuses more on customer developments in designing its strategies. Clearly, the customer-centered company is in a better position to identify new opportunities and set long-run strategies that make sense. By watching customer needs evolve, it can decide what customer groups and what emerging needs are the most important to serve. Then it can concentrate its resources on delivering superior value to target customers. In practice, today's companies must be **market-centered companies**, watching both their customers and their competitors. But they must not let competitor-watching blind them to customer-focusing.

Figure 18.4 shows how companies have moved through four orientations over the years. In the first stage, they were product-oriented, paying little attention to either customers or competitors. In the second stage, they became customer-oriented and started to pay attention to customers. In the third stage, when they started to pay attention to competitors, they became competitor-oriented. Today, companies need to be market-oriented, paying balanced attention to both customers and competitors. Rather than merely watching competitors and trying to beat them on current ways of doing business, they need to watch customers and find innovative ways to build profitable customer relationships by delivering more value than competitors do. As noted previously, marketing begins with a good understanding of consumers and the marketplace.

Competitor-centered	Customer-centered: No	Customer-centered: Yes
No	Product orientation	Customer orientation
Yes	Competitor orientation	Market orientation

FIGURE 18.4
Evolving company orientations

Reviewing Objectives and Key Terms

Today's companies face their toughest competition ever. Understanding customers is an important first step in developing strong customer relationships, but it's not enough. To gain competitive advantage, companies must use this understanding to design market offers that deliver more value than the offers of *competitors* seeking to win over the same customers. This chapter examined how firms analyze their competitors and design effective competitive marketing strategies.

OBJECTIVE 1 Discuss the need to understand competitors as well as customers through competitor analysis. (pp. 577–585)

In order to prepare an effective marketing strategy, a company must consider its competitors as well as its customers. Building profitable customer relationships requires satisfying target consumer needs *better than competitors do*. A company must continuously analyze competitors and develop *competitive marketing strategies* that position it effectively against competitors and give it the strongest possible *competitive advantage*.

Competitor analysis involves first identifying the company's major competitors, using both an industry-based and a market-based analysis. The company then gathers information on competitors' objectives, strategies, strengths and weaknesses, and reaction patterns. With this information in hand, it can select competitors to attack or avoid. Competitive intelligence must be collected, interpreted, and distributed continuously. Company marketing managers should be able to obtain full and reliable information about any competitor affecting their decisions.

OBJECTIVE 2 Explain the fundamentals of competitive marketing strategies based on creating value for customers. (pp. 585–595)

Which *competitive marketing strategy* makes the most sense depends on the company's industry and on whether it is a market leader, challenger, follower, or nicher. A *market leader* must mount strategies to expand the total market, protect market share, and expand market share. A *market challenger* is a firm that tries aggressively to expand its market share by attacking the leader, other runner-up companies, or smaller firms in the industry. The challenger can select from a variety of direct or indirect attack strategies.

A *market follower* is a runner-up firm that chooses not to rock the boat, usually from the fear that it stands to lose more than it might gain. But the follower is not without a strategy and seeks to use its particular skills to gain market growth. Some followers enjoy a higher rate of return than the leaders in their industry. A *market nicher* is a smaller firm that is unlikely to attract the attention of larger firms. Market nichers often become specialists in some end-use, customer size, specific customer, geographic area, or service.

OBJECTIVE 3 Illustrate the need for balancing customer and competitor orientations in becoming a truly market-centered organization. (pp. 596)

A competitive orientation is important in today's markets, but companies should not overdo their focus on competitors. Companies are more likely to be hurt by emerging consumer needs and new competitors than by existing competitors. *Market-centered companies* that balance consumer and competitor considerations are practicing a true market orientation.

Key Terms

OBJECTIVE 1
Competitive advantage (p 577)
Competitor analysis (p 577)
Competitive marketing strategies (p 577)
Strategic group (p 579)
Benchmarking (p 582)
Customer value analysis (p 583)

OBJECTIVE 2
Market leader (p 588)
Market challenger (p 588)
Market follower (p 588)
Market nicher (p 589)

OBJECTIVE 3
Competitor-centered company (p 596)
Customer-centered company (p 596)
Market-centered company (p 596)

Discussing the Concepts

1. Which point of view is best for identifying competitors—industry or market?
2. Explain how having strong competitors can benefit a company.
3. Describe the three basic winning competitive strategies espoused by Michael Porter.
4. Describe the three value disciplines for delivering superior customer value and explain why classifying competitive strategies in this way is appealing.
5. Discuss the strategies available to market leaders.
6. What are the advantages and disadvantages of a market nicher strategy?

Applying the Concepts

1. Form a small group and conduct a customer value analysis for five local restaurants. Who are the strong and weak competitors? For the strong competitors, what are their vulnerabilities?
2. Research the "blue ocean strategy" and discuss examples of companies that have succeeded in pursuing this strategy. Do companies succeeding in developing uncontested marketplaces necessarily have to be innovative upstarts?
3. Identify a company following a market nicher strategy in each of the following industries: automobiles, restaurants, and hotels.

Focus on Technology

Apple has hit three home runs in less than 10 years—the iPod, iPhone, and iPad. Apple sold 3 million iPads within 80 days of its release, and there were 25,000 iPad-specific apps in Apple's App Store within six months. Like iPhone apps, many iPad apps are free because they display ads that produce revenues for developers. So far, Apple is not taking a cut on the ad revenues, and developers keep 70 percent of the money that they take in from paid-for consumer applications. Publishers in Apple's iBook app keep 70 percent of the money they take in. Consequently, Barnes and Noble's Nook and Amazon's Kindle increased the percentage of revenue publishers earn to 70 percent as well. With 68 million and 55 million iPads sold in 2014 and 2015 respectively, competitors are bracing themselves for stiff competition ahead.

1. Who are Apple's iPad competitors? What is Apple's competitive position in this industry?
   (AACSB: Communication; Reflective Thinking)
2. Why is Apple virtually giving away this platform to third-party application developers? Wouldn't it be more profitable for Apple to generate more revenue from its App Store?
   (AACSB: Communication; Reflective Thinking)

Focus on Ethics

Deconstruction experts eagerly anticipated the release of Apple's iPad. Some, like Luke Soules, wanted to be the first to get his hands on the device so he could take it apart and analyze it—something called "teardowns" in the industry. He even spread videos of his purchase and teardown on the Internet and bragged about feeding intimate information about the device's innards to folks before stores even opened in California. Although Soules' company, iFixit, makes teardown information public, most deconstruction firms provide data only to paying clients. Apple's gadgets are particularly tricky to crack; there are no screws. The tool of choice for prying open the iPhone was a dental pick. Apple is very secretive of the components that make up its gadgets; some components carry the Apple name rather than the manufacturer's name. However, experts armed with X-ray machines and scanning electron microscopes, with a little bit of sleuthing mixed in, are often able to determine the origins and cost of parts.

1. Using Google, search for "iPad teardown" to find what information is available on the iPad. Is it ethical to tear down a product and share that information publicly or sell it to other firms? (AACSB: Communication; Ethical Reasoning; Reflective Thinking)
2. iFixit used the iPad teardown as a publicity stunt to promote its repair business. Apple is a "closed company" and doesn't want users repairing its products. In fact, users cannot replace a battery on an iPad; they have to return it to Apple and purchase a refurbished device for $99 plus shipping. Replacing a battery is not as simple as popping in a new one because the batteries are soldered in. Is it right for Apple to be so restrictive regarding what customers can do with the product? (AACSB: Communication; Ethical Reasoning; Reflective Thinking)

Marketing & the Economy

British Airways

British Airways offers airline services in all segments. Yet a significant portion of its business targets first-class and business-class travelers. Private "demi-cabins" are available on its 747s, each with 2-meter beds, an LCD widescreen for in-flight entertainment, and power outlets. Last year, British Airways launched a business-class-only service between New York City and London, with planes configured with only 32 roomy seats that could be spread fully flat.

The travel industry has suffered amidst a weak economy. Low-fare airlines have struggled, and premium services have felt significant air travel reductions. British Airways has seen first- and business-class seats decline as a percentage of overall tickets sold. Passengers flying premium services have opted to pay less and settle for non-refundable tickets. As a result, British Airways endured an 11 percent sales decline in 2009 and a net loss of over $800 million, which was its worst performance since it went public in 1987. The travel industry is seeing signs of renewed life, which has flyers returning to premium services to some extent. But British Airways has yet to experience a return to its pre-recession financial performance.

1. How should British Airways handle a decline in premium air travel?
2. After such an extended economic downturn, when the economy does recover, will air travelers fully return to their pre-recession travel spending habits?
3. Should British Airways be content with signs that the airline industry is recovering? What could it do to better position itself for similar cycles in the future?

Marketing by the Numbers

The basic Wi-Fi 16 GB iPad was introduced at $499; like all electronic products, Apple will likely lower the price within a year or two of introduction. The 16 GB iPad's cost of goods sold is $250. Refer to Appendix 2 to answer the following questions.

1. Calculate Apple's gross margin per unit and gross margin as a percentage of sales for the 16 GB iPad. What is Apple's gross margin if the company sells 10 million iPads? (AACSB: Communication; Analytical Reasoning)
2. What will happen to the gross margin generated by the iPad if Apple reduces the price by $100? (AACSB: Communication; Analytical Reasoning)

Video Case

Umpqua Bank

The retail banking industry has become very competitive. And with a few powerhouses dominating the market, how is a small bank to thrive? By differentiating itself through a competitive advantage that the big guys can't touch.

That's exactly what Umpqua has done. Step inside a branch of this Oregon-based community bank and you'll see immediately that this is not your typical Christmas club savings account/free toaster bank. Umpqua's business model has transformed banking from retail drudgery into a holistic experience. Umpqua has created an environment in which people just love to hang out. It not only has its own music download service featuring local artistes, it even has its own blend of coffee.

But beneath all these bells and whistles lies the core of what makes Umpqua so different—a rigorous service culture where every branch and employee gets measured on how well they serve customers. That's why every customer feels like they get the help and attention they need from employees.

After viewing the video featuring Umpqua Bank, answer the following questions about creating competitive advantage:

1. With what companies does Umpqua compete?
2. What is Umpqua's competitive advantage?
3. Will Umpqua be able to maintain this advantage in the long run? Why or why not?

Company Case

LG: Competing in India

In January 1997 LG electronics, the fourth-largest Seoul-based *chaebol*, entered India with a slew of products, targeting the masses with its aggressive pricing. In 1998, the South Korean multinational invested around 5 billion INR (over $75 million) in establishing its first manufacturing plant in Uttar Pradesh, India. By 1999, the company saw a turnover of 10.56 billion INR ($159 million).

Some of the initial hurdles faced by the tech giant included low brand awareness about the company and its product range. It was also one of the later entrants as far as market players go; Samsung, Panasonic, and Sony were already in the Indian market since 1995. The company also had to strategically handle a market that has a large number of price sensitive consumers.

Its strategy was to establish a presence with affordable, feature-rich products, launching almost 70 models across a varied portfolio in its first year of operations. LG's management ensured that local employees were engaged in almost every aspect of and made responsible for their roles and business operations as a team—planning, administration, research and development, marketing, and sales. This strategy seemed to work in LG's favor, making them one of India's fastest-growing electronics company and, by 2003, a recognized market leader in the consumer electronics and home appliances industry. However, with the company's low margins, this strategy seemed to make LG an indistinguishable brand from other consumer durable companies like U.S.-based Whirlpool, and India-based Videocon and Onida. The competition it faced from local players in the consumer electronics arena hit LG hard.

A Twin Paradox

In 2014, LG has a 30 percent market share in the consumer durables sector and was looking to increase it by almost five percent by 2015. In early 2015, the former managing director of LG Electronics India, Soon Kwon, had said that it was expecting a 25 percent jump in its revenue on the back of positive consumer sentiments, and they were planning to spend nearly 10 billion INR (over $150 million) on marketing and research and development. “India features among our top five priority markets,” said Kwon.

Competition is always healthy and keeps a company on its toes, and to understand competition it is good to know the consumers. For consumers in India, the battle between Samsung and LG holds much interest.

The two Seoul-based companies have competed against each other in the global market for over 50 years. Both players have very similar approaches when it comes to winning over the Indian market, but their aggressive marketing techniques have seen different results.

From its initial marketing tactics, LG shifted its focus and built on its store experience, which was a necessity for them because they had performed below expectations. Samsung, on the other hand, focused primarily on its mobile business and only moderately developed the other aspects of its product portfolio. The tough Indian consumer market seemed to appreciate Samsung’s focused approach, performance, and control as far as technology was concerned. Most consumers will recall the Galaxy and the Note, not so much the Optimus 3D.

LG did introduce the dual-core Android phone to the market but made lukewarm progress, probably because of the way both companies handled their software. Samsung played the slow and steady game, assuring the consumers of better performance with advanced and innovative features. Even though LG was the first to introduce the hardware, its software updates didn’t prove to be a distinguishing feature and instead delivered poor updates that ultimately worked as a disadvantage for the company.

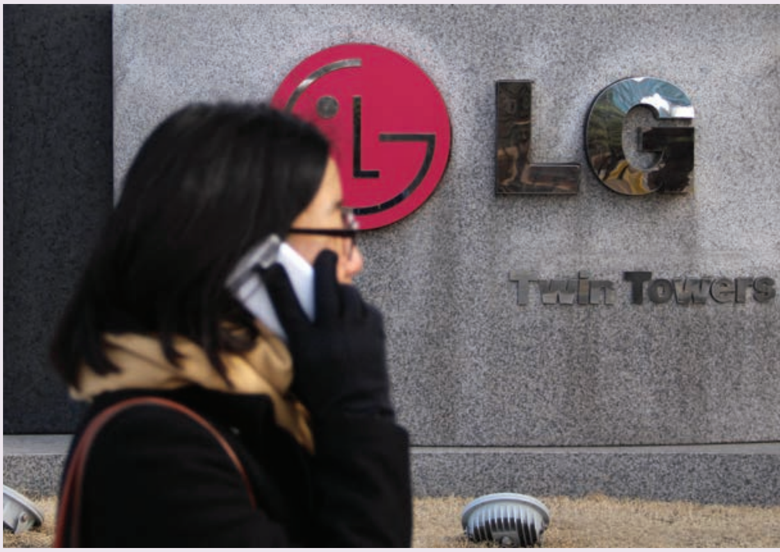
Over the years, the frenetic marketing pace that LG used to engage in has slowed down. It is moving away from emotional advertising to focus on its technology. With product life cycles reduced from two years to one year and the need to reduce wastage, LG knows that product innovation is the key. This can be seen in LG’s push in the home appliances section. In customizing the washing machine for the Indian households, where the machine is operated by domestic helpers who cannot read instructions in English, LG’s solution is to add speech technology that gives instructions in local languages.

LG, which entered the lucrative premium market, does face the problem of a confused identity. It has been perceived as a mid-priced middle-class brand and will need to work hard if it wants to succeed in this highly competitive and profitable business. Samsung, on the other hand, underwent a complete transformation by moving out of the low-end TV and washing machine markets with the launch of its smartphones. LG still straddles various segments and continues to offer products to rural price-conscious customers who do not have access to easy finance. These products are priced cheaper and their features and benefits communicated in detail. In stores, its new slogan “It’s All Possible” sits alongside the original “Life’s Good” because of its vast array of products in different categories.

Re-arranging the Good Life

The inability to protect the Indian business from the economic slowdown and incurring almost flat sales for nearly three years led to a mid-year reordering of LG India’s management with M. Y. Kim taking over from Kwon, who had led the Indian team since 2010. The focus for LG India is now on its core business of home appliances, extending its lead over its competitors. Its strategy is to reduce the risks in this area by pursuing additional revenue sources like its smartphones business. This will help improve the company’s profitability. In this regard, LG is considering manufacturing handsets locally in order to bring down prices.

LG’s sluggish performance in the mobile handset business continues to reap disappointing results. In October 2015, Kim commented on the company’s “shameful” market share in India, which is seeing Samsung taking bigger strides and local players like Micromax and Intex making leaps. “We are trying to identify what consumers are looking for,” said Kim. Research indicates that the Indian consumers are critical when it comes to product-selection and brand loyalty, and are not easily pleased. LG needs to convince them that it not only deserves a premium image, and hence, higher prices, but that it is also superior to competitors who had entered earlier.



Despite these hurdles, the Brand Trust Report 2015 listed LG as the most trusted brand in India, which can be credited to their efforts in building on innovative products and getting to know the pulse of the fiercely competitive and diverse Indian subcontinent.

LG is also, for the first time, looking to introduce country-specific handsets in India, shedding the company's inhibitions when it comes to using the e-platform and selling products online. As part of their plans for the future, LG will aggressively explore the Web with its online-only models while at the same time delivering per the interests of its offline partners. The e-commerce move is a contrast to the Kwon era, when LG India did to an extent oppose online players and had cautioned their consumers against online purchases, which would have had little or no after-sales service.

Questions for Discussion

1. Explain what you think LG should do given its repositioning?
2. Do you think LG is focusing on the right target market?
3. How can LG break into Samsung's stronghold in the premium market to gain a competitive advantage?

Sources

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Objective Outline

OBJECTIVE 1

Discuss how the international trade system and the economic, political-legal, and cultural environments affect a company's international marketing decisions.

OBJECTIVE 2

Describe three key approaches to entering international markets.

OBJECTIVE 3

Explain how companies adapt their marketing mixes for international markets.

OBJECTIVE 4

Identify the three major forms of international marketing organization.

Chapter

19

The Global Marketplace

Previewing the Concepts

You've now learned the fundamentals of how companies develop competitive marketing strategies to create customer value and to build long and lasting customer relationships. In this chapter, we extend these fundamentals to global marketing. We've visited global topics in each previous chapter—it's difficult to find an area of marketing that doesn't contain at least some international issues. Here, however, we'll focus on special considerations that companies face when they market their brands globally. Advances in communication, transportation, and other technologies have made the world a much smaller place. Today, almost every firm, large or small, faces international marketing issues. In this chapter, we will examine six major decisions marketers make in going global.

To start our exploration of global marketing, let's look at IKEA. It is a truly global operation. While it sells almost the same household items and furniture throughout the world, it also adapts selectively to the nuances in the markets it enters.

IKEA: Taming the Dragons

In the 1970s, IKEA, one of the largest manufacturers and retailers of furniture, made its first attempt to penetrate the Japanese market. This venture, however, was deemed a failure as the stores were too small and only a small percentage of Japanese consumers embraced the do-it-yourself concept that IKEA is famous for. The company had to exit the Japanese market in 1986. With this foray, the Swedish company learned its lesson. IKEA, founded in 1943, is very successful in its home country, Sweden, and other international markets, but it has to adapt its models and approaches when entering countries that have different cultures, lifestyles, and behavioral patterns.

In 2006, almost 20 years later, its second attempt worked a charm. IKEA re-entered the Japanese market with two stores near Tokyo—one in Funabashi and the other in Yokohama. This time round the company had prepared beforehand and conducted several market surveys by sending teams to visit Japanese households and having employees study around 25,000 pictures of the Japanese homes. During its opening, some 35,000 shoppers thronged its five-story store. To keep them coming, IKEA designed its second floor with 70 mini-showrooms built to the size of a typical Japanese room. The entertainment room was designed to appeal to the computer-gaming mindedness of Japanese teenagers; and the compact kitchen showroom featured space-saving options that Japanese homemakers want. Compared to furniture prices in Japan, IKEA offered great value.

The most important target group for IKEA in Japan is families with children, and the demographics showed that marketers would largely need to focus on 30-year-old's. As Japanese consumers are accustomed to high quality customer service, IKEA offers home delivery and an assembly service for an extra charge. Its range of products has also expanded to include richer and darker woods which appeal to Japanese tastes.

As much as IKEA has adapted to the Japanese environment, it has also influenced Japanese consumers. They have become more interested in designing the look of their homes by themselves instead of having interior designers do it for them.

While IKEA offers the same product range, it adapts the store layout, merchandise presentation, home solutions, and prices.

The challenges of global marketing –IKEA adapts its positioning, products, promotion, and pricing for the Chinese market.

They are also warming up to the concept of do-it-yourself.

Adaptation is also key to its success in China. While IKEA offers the same product range, it adapts the store layout, merchandise presentation, home solutions, and prices. For instance, as many Chinese apartments have balconies, IKEA's stores also include a balcony section in their suggested layout and furnishings. However, the use of the balcony space varies by region. In northern China, balconies are used for food storage; while in southern China, they double up as laundry rooms. IKEA showrooms are adapted in these regions to reflect such regional differences and needs.

When IKEA first entered China, its concept is so foreign to Chinese consumers. They did not understand how its furnishings could enhance their home. Thus, IKEA posts in-store instructions and advice. One in-store sign showed an older couple whose child recently moved out to attend college. The couple discussed how IKEA helped them to convert their son's bedroom into a new room for their use. IKEA also ran TV spots showing living areas before and after being furnished by IKEA merchandise.

IKEA also observed that Chinese tend to spend most on their living rooms as this is the part of the home where they can "show off" and entertain. Chinese living rooms also usually have a dining table. As such, living room merchandise and dining table items feature prominently in IKEA stores.

IKEA also altered some products to suit Chinese consumer needs. When it first began operations in China, it sold Hong Kong-sized beds which are shorter than standard-sized beds. However, the beds were too short for mainland Chinese and IKEA switched to selling standard beds. Chinese love hard mattresses and hence, IKEA sells mostly firmer ones here. Rice cookers and chopsticks are also sold.

While the IKEA catalog is the main marketing tool used in most markets, this is not emphasized in China because IKEA realized that the catalog provided opportunities for competitors to imitate the company's products and sell them at lower prices. Instead, advertising in the Chinese social media and micro-blogging Web site, Weibo, is used in China to target at the urban Chinese.

One of the biggest adaptations that IKEA made in China is its positioning. While in Europe, IKEA is positioned as offering good quality and stylish furniture at prices low enough that almost everyone can afford, the lower income and availability of cheap local furniture in China makes IKEA prices unaffordable. To reduce price, IKEA has to increase local sourcing of materials. While globally 30 percent of IKEA's range comes from China, about 65 percent of the volume sales in the country comes from local sourcing. Local manufacturing also means savings from the high import taxes in China. With its cost-cutting expertise, IKEA has reduced prices in China by more than 50 percent over the past 10 years. For example, the classic Klippan sofa sells for $160, a third of what it did a decade ago.

The value proposition of IKEA in China was, thus, changed to a good quality, Western-styled, aspirational brand for the middle-class population.[1]

Global Marketing Today

Today, the world is shrinking rapidly with the advent of faster communication, transportation, and financial flows. Products developed in one country—Gucci purses, Mont Blanc pens, McDonald's hamburgers, Japanese sushi, German BMWs, and Korean Samsung mobile phones—are finding enthusiastic acceptance in other countries. It would not be surprising to hear about a German businessman wearing an Italian suit meeting an English friend at a Japanese restaurant who later returns home to drink Tsingtao beer and watch the NBA on TV.

International trade has boomed over the last three decades. Since 1990, the number of multinational companies (MNCs) has more than doubled to more than 63,000. Some of these MNCs are larger than countries. Of the largest 150 economies, only 77 are countries. The remaining 73 are MNCs including Wal-Mart and Apple.

❯ Many American companies have now made the world their market.

Many U.S. companies have long been successful at international marketing: Coca-Cola, McDonald's, Starbucks, General Electric, IBM, Colgate, Caterpillar, Boeing, and dozens of other American firms have made the world their market. And in Asia, names such as Sony, Toyota, Nestlé, Uber, Mercedes, Panasonic, and Samsung have become household words.

But as global trade grows, global competition is also intensifying. Foreign firms are expanding aggressively into new international markets, and home markets are no longer as rich in opportunity. Few industries are now safe from foreign competition. If companies delay taking steps toward internationalizing, they risk being shut out of growing markets in Western and Eastern Europe, China and the Pacific Rim, Russia, and elsewhere. Firms that stay at home to play it safe might not only lose their chances to enter other markets but also risk losing their home markets. Domestic companies that never thought about foreign competitors suddenly find these competitors in their own backyards.

Ironically, although the need for companies to go abroad is greater today than in the past, so are the risks. Companies that go global may face highly unstable governments and currencies, restrictive government policies and regulations, and high trade barriers. Corruption is also an increasing problem—officials in several countries often award business not to the best bidder but to the highest briber.

A **global firm** is one that, by operating in more than one country, gains marketing, production, R&D, and financial advantages that are not available to purely domestic competitors. The global company sees the world as one market. It minimizes the importance of national boundaries and develops "transnational" brands. It raises capital, obtains materials and components, and manufactures and markets its goods wherever it can do the best job. For example, Otis Elevator gets its elevators' door systems from France, small geared parts from Spain, electronics from Germany, and special motor drives from Japan. It operates manufacturing facilities in the Americas, Europe, and Asia, and engineering and test centers in the U.S., Austria, Brazil, China, Czech Republic, France, Germany, India, Italy, Japan, Korea, and Spain. In turn, Otis Elevator is a wholly-owned subsidiary of global commercial and aerospace giant United Technologies.

Global firm
A firm that, by operating in more than one country, gains R&D, production, marketing, and financial advantages in its costs and reputation that are not available to purely domestic competitors.

This does not mean that small- and medium-size firms must operate in a dozen countries to succeed. These firms can practice global niching. But the world is becoming smaller, and every company operating in a global industry—whether large or small—must assess and establish its place in world markets. The rapid move toward globalization means that all companies will have to answer some basic questions: What market position should we try to establish in our country, in our economic region, and globally? Who will our global competitors be, and what are their strategies and resources? Where should we produce or source our products? What strategic alliances should we form with other firms around the world?

As shown in **Figure 19.1**, a company faces six major decisions in international marketing. We will discuss each decision in detail in this chapter.

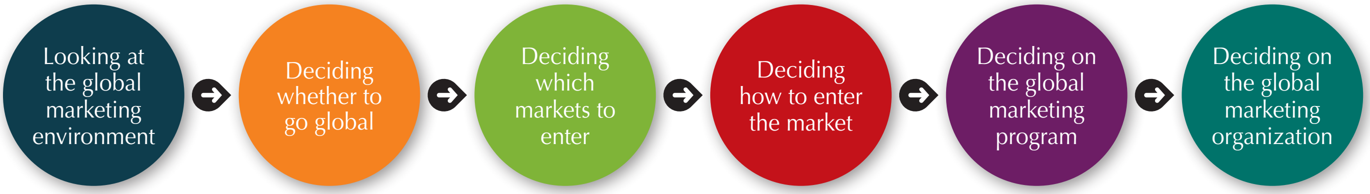


FIGURE 19.1
Major international marketing decisions

Looking at the Global Marketing Environment

Before deciding whether to operate internationally, a company must understand the international marketing environment. That environment has changed a great deal in the past two decades, creating both new opportunities and new problems.

Non-tariff trade barriers – Because of nontariff obstacles, Wal-Mart suspended its once-ambitious plans to expand into India's huge but fragmented retail market.

The International Trade System

Companies looking abroad must start by understanding the international *trade system*. When selling to another country, a firm may face restrictions on trade between nations. Foreign governments may charge *tariffs*, taxes on certain imported products designed to raise revenue or to protect domestic firms. Or they may set *quotas*, limits on the amount of foreign imports that they will accept in certain product categories. The purpose of a quota is to conserve on foreign exchange and to protect local industry and employment. Firms may also face *exchange controls*, which limit the amount of foreign exchange and the exchange rate against other currencies. The company also may face *non-tariff trade barriers* that biases against selected imports.

For years, **Japan** has successfully devised non-tariff trade barriers to shut foreign products out of its domestic markets. One of the cleverest ways the Japanese have found to keep foreign manufacturers out is to plead "uniqueness." Japanese skin is different, the government argues, so foreign cosmetics companies must test their products in Japan before selling there. The Japanese say their stomachs are small and have room for only the *mikan*, the local tangerine, so imports of U.S. oranges are limited. Now the Japanese have come up with what may be the flakiest argument yet: Their snow is different, so ski equipment should be too. [2]

At the same time, certain forces *help* trade between nations. Examples include the General Agreement on Tariffs and Trade (GATT) and various regional free trade agreements.

The World Trade Organization

The General Agreement on Tariffs and Trade (GATT) is a 70-year-old treaty designed to promote world trade by reducing tariffs and other international trade barriers. Since the treaty's inception in 1947, member nations (currently numbering 159) have met in eight rounds of GATT negotiations to reassess trade barriers and set new rules for international trade. The first seven rounds of negotiations reduced the average worldwide tariffs on manufactured goods from 45 percent to just 5 percent.[3]

The most recently completed GATT negotiations, dubbed the Uruguay Round, dragged on for seven long years before concluding in 1994. It promoted long-term global trade growth. It reduced the world's remaining merchandise tariffs by 30 percent. The agreement also extended GATT to cover trade in agriculture and a wide range of services, and it toughened international protection of copyrights, patents, trademarks, and other intellectual property.

› The WTO and GATT – The General Agreement on Tariffs and Trade (GATT) promotes world trade by reducing tariffs in other international trade barriers. The WTO overseas GATT, imposes trade sanctions, and mediates global disputes.

Regional Free Trade Zones

Certain countries have formed *free trade zones* or **economic communities**. These are groups of nations organized to work toward common goals in the regulation of international trade. One such community is the *European Union (EU)*. Formed in 1957, the EU set out to create a single European market by reducing barriers to the free flow of products, services, finances, and labor among member countries and developing policies on trade with non-member nations. Today, the EU represents one of the world's single largest markets. As of 2016, it has 28 member countries containing more than half a billion consumers and accounting for almost 20 percent of the world's exports. However, in 2016, United Kingdom voted to exit the EU. [4]

Economic community
A group of nations organized to work toward common goals in the regulation of international trade.

In 1994, the *North American Free Trade Agreement (NAFTA)* established a free trade zone among the United States, Mexico, and Canada. The agreement created a single market of 452 million people who produce and consume almost $17 trillion worth of goods and services annually. NAFTA has eliminated trade barriers and investment restrictions among the three countries, allowing trade to flourish.

Each nation has unique features that must be understood. A nation's readiness for different products and services and its attractiveness as a market to foreign firms depend on its economic, political-legal, and cultural environments.

Economic Environment

The international marketer must study each country's economy. Two economic factors reflect the country's attractiveness as a market: the country's industrial structure and its income distribution.

› Economic communities – The European Union represents one of the world's single largest markets. Its current member countries contain more than half a billion consumers and account for 20 percent of the world's exports.

❯ ASEAN is a geo-political and economic organization of 10 countries in Southeast Asia. It aims to accelerate economic growth, social progress and cultural development, and promote regional peace and stability.

The country's *industrial structure* shapes its product and service needs, income levels, and employment levels. The four types of industrial structures are as follows:

- *Subsistence economies*. In a subsistence economy, the vast majority of people engage in simple agriculture. They consume most of their output and barter the rest for simple goods and services. They offer few market opportunities.
- *Raw material exporting economies*. These economies are rich in one or more natural resources but poor in other ways. Much of their revenue comes from exporting these resources. Examples are Chile (tin and copper), the Democratic Republic of Congo (copper, cobalt, and coffee), and Saudi Arabia (oil). These countries are good markets for large equipment, tools and supplies, and trucks. If there are many foreign residents and a wealthy upper class, they are also a market for luxury goods.
- *Emerging economies (industrializing economies)*. In an emerging economy, fast growth in manufacturing results in rapid overall economic growth. Examples include the BRIC countries—Brazil, Russia, India, and China. As manufacturing increases, the country needs more imports of raw textile materials, steel, and heavy machinery, and fewer imports of finished textiles, paper products, and automobiles. Industrialization typically creates a new rich upper class and a small but growing middle class, both demanding new types of imported goods.
- *Industrial economies*. Industrial economies are major exporters of manufactured goods, services, and investment funds. They trade goods among themselves and also export them to other types of economies for raw materials and semi-finished goods. The varied manufacturing activities of these industrial nations and their large middle class make them rich markets for all sorts of goods. Examples include the United States, Japan, and Norway.

❯ **Raw material exporting economy** – Much of Saudi Arabia's economic revenue comes from exporting oil.

The second economic factor is the country's *income distribution*. Industrialized nations may have low-, medium-, and high-income households. For example, there exist very-low-income households in the United States. In contrast, countries with subsistence economies may consist mostly of households with very low family incomes. Still other countries may have households with only either very low or very high incomes. However, even poor or emerging economies may be attractive markets for all kinds of goods. These days, companies in a wide range of industries—from cars to computers to candy—are increasingly targeting even low- and middle-income consumers in emerging economies. Ford introduced a new model in India, targeted to consumers who are only now able to afford their first car:

In an effort to boost its presence in Asia's third-largest auto market behind Japan and China, **Ford** introduced the Figo, a $7,700 hatchback design for a hypothetical 20-something Indian named Sandeep. He works in IT, finance, or another service industry and tools around on a motorcycle. But now that he's enjoying the first fruits of affluence, Sandeep wants four wheels. "There are huge numbers of people wanting to move off their motorbikes," says Ford's India general manager. Some 70 percent of cars sold in India are in the Figo's size and price range. In fact, GM beat Ford to the punch by two months with its new $7,600 Chevy Beat, which is so popular in India that there's now a two-month waiting list.[5]

› Economic environment – In India, Ford's $7,700 Figo targets low- to middle-income consumers who want to move off their motorbikes.

Thus, country and regional economic environments will affect an international marketer's decisions about which global markets to enter and how.

Political-Legal Environment

Nations differ greatly in their political-legal environments. In considering whether to do business in a given country, a company should consider factors such as the country's attitudes toward international buying, government bureaucracy, political stability, and monetary regulations.

Some nations are very receptive to foreign firms; others are less accommodating. For example, India has tended to bother foreign businesses with import quotas, currency restrictions, and other limitations that make operating there a challenge. In contrast, neighboring Asian countries such as Singapore and Thailand court foreign investors and shower them with incentives and favorable operating conditions. Political stability is another issue. For example, governments of India and Thailand are notoriously unstable. India has elected at least 10 new governments and Thailand's government has occasionally been overthrown in military coups over the past 25 years—increasing the risk of doing business there. Although most international marketers still find India's huge market attractive, the unstable political situation will affect how they handle business and financial matters.[6] Thailand, though in a better situation, is also considered unstable politically.

Companies must also consider a country's monetary regulations. Sellers want to take their profits in a currency of value to them. Ideally, the buyer can pay in the seller's currency or in other world currencies. Short of this, sellers might accept a blocked currency—one whose removal from the country is restricted by the buyer's government—if they can buy other goods in that country that they need themselves or can sell elsewhere for a needed currency. Besides currency limits, a changing exchange rate also creates high risks for the seller. Most international trade involves cash transactions. Yet many nations have too little hard currency to pay for their purchases from other countries. They may want to pay with other items instead of cash.

Barter involves the direct exchange of goods or services: China agreed to help the Democratic Republic of Congo develop $6 billion of desperately needed infrastructure—2,400 miles of roads, 2,000 miles of railways, 32 hospitals, 145 health centers, and two universities—in exchange for natural resources needed to feed China's booming industries—10 million tons of copper and 400,000 tons of cobalt.[7]

Cultural Environment

Each country has its own folkways, norms, and taboos. When designing global marketing strategies, companies must understand how culture affects consumer reactions in each of its world markets. In turn, they must also understand how their strategies affect local cultures.

The Impact of Culture on Marketing Strategy

Sellers must understand the ways that consumers in different countries think about and use certain products before planning a marketing program. There are often surprises. For example, the average French man uses almost twice as many cosmetics and grooming aids as his wife. The Germans and the French eat more packaged, branded spaghetti than do Italians. Some 49 percent of Chinese eat on their way to work. Most American women let down their hair and take off their makeup at bedtime, whereas 15 percent of Chinese women style their hair at bedtime and 11 percent put *on* makeup.[8]

❯ Overlooking cultural differences can result in embarrassing mistakes. China imposed a nationwide ban on a Nike ad featuring LeBron James.

Companies that ignore cultural norms and differences can make some very expensive and embarrassing mistakes. Here are some examples:

Nike inadvertently offended Chinese officials when it ran an ad featuring LeBron James crushing a number of culturally revered Chinese figures in a kung fu–themed television ad. The Chinese government found that the ad violated regulations to uphold national dignity and respect the "motherland's culture" and yanked the multimillion-dollar campaign. With egg on its face, Nike released a formal apology.

Burger King made a similar mistake when it created in-store ads in Spain showing Hindu goddess Lakshmi atop a ham sandwich with the caption "a snack that is sacred." Cultural and religious groups worldwide objected strenuously—Hindus are vegetarian. Burger King apologized and pulled the ads.[9]

Business norms and behavior also vary from country to country. Here are some examples:

- American executives like to get right down to business and engage in fast and tough face-to-face bargaining. However, Japanese and other Asian businesspeople often find this behavior offensive. They prefer to start with polite conversation, and they rarely say no in face-to-face conversations.
- Asians tend to sit or stand very close to one another when they queue or talk business—in fact, almost nose-to-nose. The Asian business executive tends to move closer as the American and Australian keep backing away. Both may end up being offended. Asian business executives need to be briefed on these kinds of factors before conducting business in another country.[10]
- Chinese businessmen like to hold a welcome banquet, especially for major overseas visitors, prior to a business meeting discussion. They believe it creates a "good" atmosphere for the discussion in the following meeting.

By the same token, companies that understand cultural nuances can use them to their advantage when positioning products internationally. Consider the following example:

Whirlpool – A television ad in India shows a mother lapsing into a daydream: Her young daughter is in a beauty contest dressed as Snow White, dancing onstage. Her flowing gown is an immaculate white. The garments of the other contestants, who dance in the background, are a tad gray. Snow White, no surprise, wins the blue ribbon. The mother awakes to the laughter of her adoring family—and glances proudly at her Whirlpool White Magic washing machine. The TV spot is the product of 14 months of research by Whirlpool into the psyche of the Indian consumer. Among other things, Whirlpool learned that Indian homemakers prize hygiene and purity, which they associate with white. The trouble is, white garments often get discolored after frequent machine washing in local water. Besides appealing to this love of purity in its ads, Whirlpool custom-designed machines that are especially good with white fabrics. Whirlpool now is the leading brand in India's fast-growing market for fully automatic washing machines.[11]

Thus, understanding cultural traditions, preferences, and behaviors can help companies not only to avoid embarrassing mistakes but also to take advantage of cross-cultural opportunities (see **Real Marketing 19.1**).

The Impact of Marketing Strategy on Cultures

Whereas marketers worry about the impact of culture on their global marketing strategies, others may worry about the impact of marketing strategies on global cultures. That is, exposure to American values and products erodes other cultures and as a result, countries around the globe are losing their individual cultural identities. They pointed out that teens in India watch MTV and ask their parents for more Westernized clothes and other symbols of American pop culture and values. In China, most people never drank coffee before Starbucks entered the market. Now Chinese consumers rush to Starbucks stores "because it's a symbol of a new kind of lifestyle." Similarly, in China, where McDonald's operates more than 80 restaurants in Beijing alone, nearly half of all children identify the chain as a domestic brand.

❯ Americanization – Social critics contend that large American multinationals aren't just "globalizing" their brands, they are "Americanizing" the world's cultures. Here, a Starbucks outlet in Turkey frequented by Asian tourists.

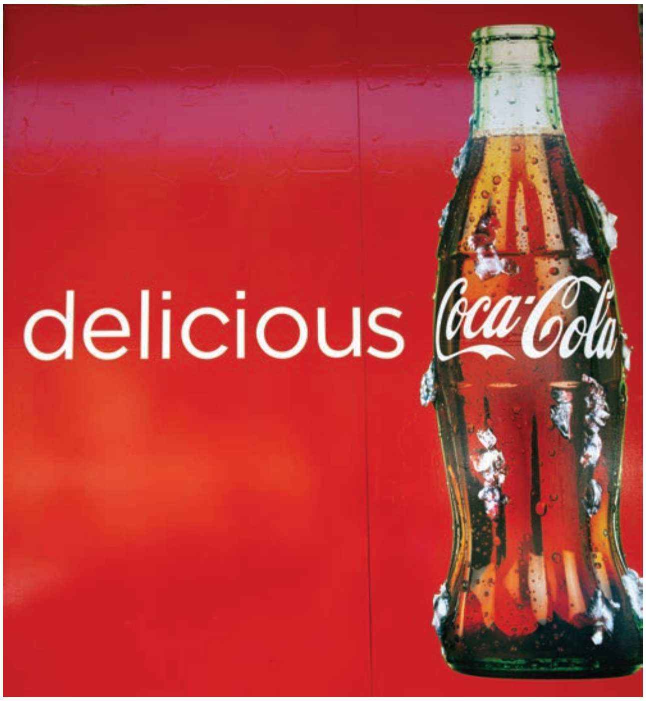
Such concerns have sometimes led to a backlash against American globalization. Well-known U.S. brands have become the targets of boycotts and protests in some international markets. Companies such as McDonald's, which are symbols of American capitalism, have been singled out by anti-globalization protestors in hot spots all around the world, especially when anti-American sentiment peaks.

The basic principle for companies to succeed abroad is to adapt to local cultural values and traditions rather than trying to force their own. Disneyland Paris flopped at first because it failed to take local cultural values and behaviors into account. According to a Euro Disney executive, "When we first launched, there was the belief that it was enough to be Disney. Now we realize that our guests need to be welcomed on the basis of their own culture and travel habits."[12]

Deciding Whether to Go Global

Not all companies need to venture into international markets to survive. For example, most local businesses need to market well only in the local marketplace. Operating domestically is easier and safer. Managers don't need to learn another country's language and laws. They don't need to deal with unstable currencies, face political and legal uncertainties, or redesign their products to suit different customer expectations. However, companies that operate in global industries, where their strategic positions in specific markets are affected strongly by their overall global positions, must compete on a regional or worldwide basis to succeed.

Any of several factors might draw a company into the international arena. Global competitors might attack the company's home market by offering better products or lower prices. The company might want to counterattack these competitors in their home markets to tie up their resources. Or the company's home market might be stagnant or shrinking, and foreign markets may present higher sales and profit opportunities. Or the company's customers might be expanding abroad and require international servicing. Or, most likely, international markets might simply provide better opportunities for growth. For example, Coca-Cola has emphasized international growth to offset stagnant or declining U.S. soft drink sales. "It's been apparent that Coke's signature cola can't grow much on its home turf anymore," states an industry analyst. Today, about 60 percent of Coke's revenue and 80 percent of its profits come from outside North America.[13]



› Going global – Coca-Cola has emphasized international growth to offset stagnant or declining U.S. soft drink sales.

Before going abroad, the company must weigh several risks and answer many questions about its ability to operate globally. Can the company learn to understand the preferences and buyer behavior of consumers in other countries? Can it offer competitively attractive products? Will it be able to adapt to other countries' business cultures and deal effectively with foreign nationals? Do the company's managers have the necessary international experience? Has management considered the impact of regulations and the political environments of other countries? Because of the difficulties of entering international markets, most companies do not act until some situation or event thrusts them into the global arena. Someone—a domestic exporter, a foreign importer, a foreign government—may ask the company to sell abroad. Or the company may be saddled with overcapacity and need to find additional markets for its goods.

Deciding Which Markets to Enter

Before going abroad, the company should try to define its international *marketing objectives and policies*. It should decide what *volume* of foreign sales it wants. Most companies start small when they go abroad. Some plan to stay small, seeing international sales as a small part of their business. Other companies have bigger plans, seeing international business as equal to or even more important than their domestic business.

The company also needs to choose in *how many* countries it wants to market. Companies must be careful not to spread themselves too thin or to expand beyond their capabilities by operating in too many countries too soon. Next, the company needs to decide on the *types* of countries to enter. A country's attractiveness depends on the product, geographical factors, income and population, political climate, and other factors. The seller may prefer certain country groups or parts of the world. In recent years, many major new markets have emerged, offering both substantial opportunities and daunting challenges.

After listing possible international markets, the company must carefully evaluate each one. It must consider many factors. For example, Colgate's decision to enter the Chinese market seems fairly straightforward: China's huge population makes it the world's largest toothpaste market. And given that only 20 percent of China's rural dwellers brush daily, this already huge market can grow even larger. Yet Colgate must still question whether market size *alone* is reason enough for investing heavily in China.

Colgate should ask some important questions: Will it be able to overcome cultural barriers and convince Chinese consumers to brush their teeth regularly? Does China provide for the needed production and distribution technologies? Can Colgate compete effectively with dozens of local competitors, a state-owned brand managed by Unilever, and P&G's Crest? Will the Chinese government remain stable and supportive? Colgate's success in China suggests that it could answer yes to all of these questions. By expanding its product line and aggressively pursuing promotional and educational programs—from massive ad campaigns to visits to local schools to sponsoring oral care research—Colgate has expanded its market share from 7 percent in 1995 to more than 60 percent today.[14]

❯ Colgate's decision to enter the huge Chinese market seems fairly straightforward. Using aggressive promotional and education programs, Colgate has expanded its market share from 7 percent in 1995 to more than 60 percent today.

Possible global markets should be ranked on several factors, including market size, market growth, cost of doing business, competitive advantage, and risk level. The goal is to determine the potential of each market, using indicators such as those shown in **Table 19.1**. Then the marketer must decide which markets offer the greatest long-run returns on investment.

Real Marketing 19.1

L'Oréal: "The United Nations of Beauty"

How does a French company successfully market an American version of a Korean skin-beautifier under a French brand name in Australia? Ask L'Oréal, which sells more than $30 billion worth of cosmetics, hair care products, skin care concoctions, and fragrances each year in 150 countries, making it the world's biggest cosmetics marketer. L'Oréal sells its brands globally by understanding how they appeal to varied cultural nuances of beauty in specific local markets. Then it finds the best balance between standardizing its brands for global impact and adapting them to meet local needs and desires.

L'Oréal is as global as a company gets. With offices spread across 130 nations and more than half of its sales coming from markets outside Europe and North America, the company no longer has a clearly defined home market. L'Oréal's well-known brands originated in a half dozen or more different cultures, including French (L'Oréal Paris, Garnier, Lancôme), American (Maybelline, Kiehl's, SoftSheen-Carson, Ralph Lauren, Redkin), British (The Body Shop), Italian (Giorgio Armani), and Japanese (Shu Uemura). The master global marketer is the uncontested world leader in makeup, skin care, and hair coloring, and second only to P&G in hair care.

L'Oréal's global mastery starts with a corps of highly multicultural managers. The company is famous for building global brand teams around managers who have deep backgrounds in several cultures. L'Oréal managers around the world bring diverse cultural perspectives to their brands as if they were, say, German, or American, or Chinese—or all three at once. As explained by one Indian-American- French manager of a team that launched a men's skin care line in Southeast Asia: "I cannot think about things one way. I have a stock of references in different languages: English, Hindi, and French. I read books in three different languages, meet people from different countries, eat food from different [cultures], and so on."

For example, a French-Irish-Cambodian skin care manager noticed that, in Europe, face creams tended to be either "tinted" (considered makeup) or "lifting" (considered skin care). In Asia, however, many face creams combine both traits. Recognizing the growing popularity of Asian beauty trends in Europe, the manager and his team developed a tinted lifting cream for the French market, a product that proved highly successful.

L'Oréal digs deep to understand what beauty means to consumers in different parts of the world. It outspends all major competitors on R&D, painstakingly researching beauty and personal care behaviors unique to specific locales. L'Oréal has set up R&D centers all over the world, perfecting a local observation approach it calls "geocosmetics." This science is fueled with insights gained through everything from in-home visits to observations made in "bathroom laboratories" equipped with high-tech gadgetry. L'Oréal's research produces precise information about regional beauty and hygiene rituals, as well as about local conditions and constraints that affect the use of its products, such as humidity and temperature:

> How many minutes does a Chinese woman devote to her morning beauty routine? How do people wash their hair in Bangkok? How many brush strokes does a Japanese woman or a French woman use to apply mascara? These beauty rituals, repeated thousands of times, are inherently cultural. Passed on by tradition, influenced by climate and by local living conditions, they strive to achieve an ideal of perfection that is different from one country and from one continent to the next. They provide an incredibly rich source of information for L'Oréal. Behind these rituals, there are physiological realities: fine, straight, and short eyelashes cannot be made-up the same way as thick, curled, and long lashes.

L'Oréal uses such detailed insights to create products and positioning for brands in local markets. "Beauty is less and less one size fits all," says a L'Oréal executive in China. "You have to have an answer for very different needs." For example, more than 260 scientists now work in L'Oréal's Shanghai research center, tailoring products ranging from lipstick to herbal cleaners to cucumber toners for Chinese tastes.

At the same time that understanding the minute details of local customer behavior helps L'Oréal be responsive to specific market needs, it also lets the company achieve global scale by integrating brands across world cultures. For example, consider Elséve Total Reparação, a hair care line initially developed at L'Oréal's labs in Rio de Janeiro to address specific hair problems described by Brazilian women. In Brazil, more than half of all women have long, dry, dull, and very curly hair, resulting from the humid Brazilian climate, exposure to the sun, frequent washing, and smoothing and straightening treatments. Elséve Total Reparação was an immediate hit in Brazil, and L'Oréal quickly rolled it out to other South American and Latin American markets. The company then tracked down other global locales with climate characteristics and hair care rituals similar to those faced by Brazilian women. Subsequently, L'Oréal launched the brand as Elséve Total Repair in numerous European, Indian, and other South East Asian markets, where consumers greeted it with similar enthusiasm.

Such adaptation often plays out across multiple L'Oréal brands—which takes us back to that Korean skin-beautifier sold under a French brand in Australia mentioned in the opening paragraph. Blemish Balm Cream (BB Cream) was originally created by L'Oréal dermatologists in Korea to soothe skin and hide minor blemishes. It quickly became a high-flying Korean brand. However, applying their deep knowledge of skin colors, treatments, and makeup worldwide, L'Oréal researchers developed a successful new generation BB Cream adapted to conditions and skin colors in U.S. markets (where BB stands for "beauty balm") and launched it under the Maybelline New York brand. Still not finished, L'Oréal created yet another local version for Europe under the Garnier brand, which it also introduced in other world markets, including Australia.

L'Oréal doesn't just adapt its product formulations globally. It also adapts brand positioning and marketing to international needs and expectations. For example, nearly 20 years ago, the company bought stodgy American makeup producer Maybelline. To reinvigorate and globalize the brand, it moved the unit's headquarters from Tennessee to New York City and added "New York" to the label. The resulting urban, street-smart, Big Apple image played well with the midprice positioning of the workaday makeup brand globally. The makeover soon earned Maybelline a 20 percent market share in its category in Western Europe. The young urban positioning also hit the mark in Asia, where few women realized that the trendy "New York" Maybelline brand belonged to French cosmetics giant L'Oréal.

Thus, L'Oréal and its brands are truly global. But the company's international success comes from achieving a global-local balance that adapts and differentiates brands in local markets while optimizing their impact across global markets. L'Oréal is one of the few companies that have achieved both local brand responsiveness and global brand integration. When a former CEO once addressed a UNESCO conference, nobody batted an eyelid when he described L'Oréal as "The United Nations of Beauty."

Sources

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› **Global-local balance** – Cosmetics and beauty care giant L'Oréal balances local brand responsiveness and global brand impact, making it "The United Nations of Beauty."

TABLE 19.1 Indicators of Market Potential

Demographic Characteristics	*Sociocultural Factors*
Education	Consumer lifestyles, beliefs, and values
Population size and growth	Business norms and approaches
Population age composition	Cultural and social norms
	Languages
Geographic Characteristics	***Political and Legal Factors***
Climate	National priorities
Country size	Political stability
Population density—urban, rural	Government attitudes toward global trade
Transportation structure and market	Government bureaucracy
Accessibility	Monetary and trade regulations
Economic Factors	
GDP size and growth	
Income distribution	
Industrial infrastructure	
Natural resources	
Financial and human resources	

Deciding How to Enter the Market

Once a company has decided to sell in a foreign country, it must determine the best mode of entry. Its choices are *exporting*, *joint venturing*, and *direct investment*. **Figure 19.2** shows these three market entry strategies, along with the options each one offers. As the figure shows, each succeeding strategy involves more commitment and risk, but also more control and potential profits.

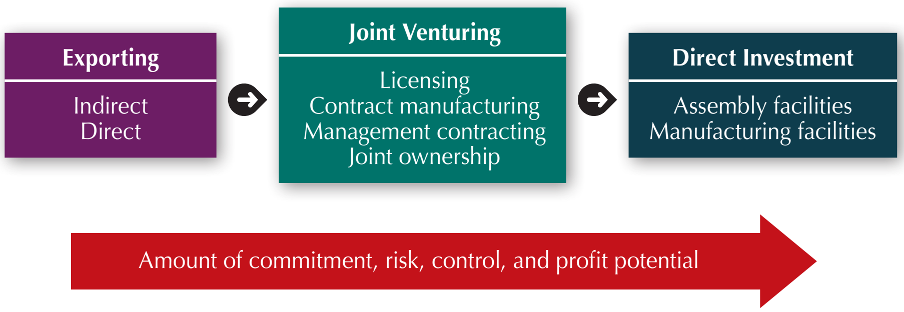

FIGURE 19.2
Market entry strategies

Exporting

The simplest way to enter a foreign market is through **exporting**. The company may passively export its surpluses from time to time, or it may make an active commitment to expand exports to a particular market. In either case, the company produces all its goods in its home country. It may or may not modify them for the export market. Exporting involves the least change in the company's product lines, organization, investments, or mission.

Companies typically start with *indirect exporting*, working through independent international marketing intermediaries. Indirect exporting involves less investment because the firm does not require an overseas marketing organization or network. It also involves less risk. International marketing intermediaries bring know-how and services to the relationship, so the seller normally makes fewer mistakes.

Sellers may eventually move into *direct exporting*, whereby they handle their own exports. The investment and risk are somewhat greater in this strategy, but so is the potential return. A company can conduct direct exporting in several ways: It can set up a domestic export department that carries out export activities. It can set up an overseas sales branch that handles sales, distribution, and perhaps promotion. The sales branch gives the seller more presence and program control in the foreign market and often serves as a display center and customer service center. The company can also send home-based salespeople abroad at certain times to find business. Finally, the company can do its exporting either through foreign-based distributors who buy and own the goods or through foreign-based agents who sell the goods on behalf of the company.

Exporting
Entering a foreign market by selling goods produced in the company's home country, often with little modification.

Joint Venturing

A second method of entering a foreign market is **joint venturing**—joining with foreign companies to produce or market products or services. Joint venturing differs from exporting in that the company joins with a host country partner to sell or market abroad. It differs from direct investment in that an association is formed with someone in the foreign country. There are four types of joint ventures: *licensing*, *contract manufacturing*, *management contracting*, and *joint ownership*.[14]

Joint venturing
Entering foreign markets by joining with foreign companies to produce or market a product or service.

Licensing
A method of entering a foreign market in which the company enters into an agreement with a licensee in the foreign market.

Licensing

Licensing is a simple way for a manufacturer to enter international marketing. The company enters into an agreement with a licensee in the foreign market. For a fee or royalty, the licensee buys the right to use the company's manufacturing process, trademark, patent, trade secret, or other item of value. The company thus gains entry into the market at little risk; the licensee gains production expertise or a well-known product or name without having to start from scratch.

› Licensing – In Japan, the Morinaga Milk Company produces Hi-Chew candy, drinks, and dessert items.

Morinaga Milk Industry Co., Ltd – In Japan, Budweiser beer flows from Kirin breweries, and Morinaga produces Sunkist fruit juices, drinks, and dessert items. Coca-Cola markets internationally by licensing bottlers around the world and supplying them with the syrup needed to produce the product. Its global bottling partners range from the Coca-Cola Bottling Company of Saudi Arabia to Europe-based Coca-Cola Hellenic, which bottles and markets Coca-Cola products to 560 million people in 28 countries, from Italy and Greece to Nigeria and Russia.

Licensing has potential disadvantages, however. The firm has less control over the licensee than it would over its own operations. Furthermore, if the licensee is very successful, the firm has given up these profits, and if and when the contract ends, it may find it has created a competitor.

Contract manufacturing
A joint venture in which a company contracts with manufacturers in a foreign market to produce the product or provide its service.

Management contracting
A joint venture in which the domestic firm supplies the management know-how to a foreign company that supplies the capital.

Contract Manufacturing

Another option is **contract manufacturing**—the company contracts with manufacturers in the foreign market to produce its product or provide its service. Sears used this method in opening up department stores in Mexico and Spain, where it found qualified local manufacturers to produce many of the products it sells. The drawbacks of contract manufacturing are decreased control over the manufacturing process and loss of potential profits on manufacturing. The benefits are the chance to start faster, with less risk, and the later opportunity either to form a partnership with or to buy out the local manufacturer.

Management Contracting

Under **management contracting**, the domestic firm supplies management know-how to a foreign company that supplies the capital. The domestic firm exports management services rather than products. Hilton uses this arrangement in managing hotels around the world. Management contracting is a low-risk method of getting into a foreign market, and it yields income from the beginning. The arrangement is even more attractive if the contracting firm has an option to buy some share in the managed company later on. The arrangement is not sensible, however, if the company can put its scarce management talent to better uses or if it can make greater profits by undertaking the whole venture. Management contracting also prevents the company from setting up its own operations for a period of time.

Joint ownership
A joint venture in which a company joins investors in a foreign market to create a local business in which the company shares joint ownership and control.

Joint Ownership

Joint ownership ventures consist of one company joining forces with foreign investors to create a local business in which they share joint ownership and control. A company may buy an interest in a local firm, or the two parties may form a new business venture. Joint ownership may be needed for economic or political reasons. The firm may lack the financial, physical, or managerial resources to undertake the venture alone. Or a foreign government may require joint ownership as a condition for entry. KFC entered Japan through a joint ownership venture with Japanese conglomerate Mitsubishi. KFC sought a good way to enter the large but difficult Japanese fast-food market. In turn, Mitsubishi, one of Japan's largest poultry producers, understood the Japanese culture and had money to invest. Together, they helped KFC succeed in the semi-closed Japanese market. Surprisingly, with Mitsubishi's guidance, KFC developed a decidedly un-Japanese positioning for its Japanese restaurants:

Joint ownership – KFC entered Japan through a joint ownership venture with Japanese conglomerate Mitsubishi.

KFC – When KFC first entered Japan, the Japanese were uncomfortable with the idea of fast food and franchising. They saw fast food as artificial and unhealthy. To build trust, KFC Japan created ads depicting the most authentic version of Colonel Sanders' beginnings possible. The ads featured the quintessential southern mother and highlighted the KFC philosophy—the southern hospitality, old American tradition, and authentic home cooking. With "My Old Kentucky Home" by Stephen Foster playing in the background, the commercial showed Colonel Sanders' mother making and feeding her grandchildren KFC chicken made with 11 secret spices. It conjured up scenes of good home cookin' from the American South, positioning KFC as serving wholesome, aristocratic food. The campaign was hugely successful—in the end, the Japanese could not get enough of this special American chicken. Most Japanese grew to know "My Old Kentucky Home" by heart. There are now more than 1,100 KFC locations in the country.[15]

Joint ownership has certain drawbacks. The partners may disagree over investment, marketing, or other policies. Whereas many U.S. firms like to reinvest earnings for growth, local firms often prefer to take out these earnings; and whereas U.S. firms emphasize the role of marketing, local investors may rely on selling.

Direct investment
Entering a foreign market by developing foreign-based assembly or manufacturing facilities.

Direct Investment

The biggest involvement in a foreign market comes through **direct investment**—the development of foreign-based assembly or manufacturing facilities. For example, Ford has made more than $4 billion in direct investments in several Asian countries including China, India, and Thailand. It has a $1 billion state-of-the-art manufacturing and engineering plant to produce 240,000 cars to meet the demand in India and other Asian markets. Similarly, Honda and Toyota have made substantial direct manufacturing investments in North America. Some 90 percent of the Honda and Acura models sold in the United States are made in North America. If a company has gained experience in exporting and if the foreign market is large enough, foreign production facilities offer many advantages. The firm may have lower costs in the form of cheaper labor or raw materials, foreign government investment incentives, and freight savings. The firm may improve its image in the host country because it creates jobs. Generally, a firm develops a deeper relationship with government, customers, local suppliers, and distributors, allowing it to adapt its products to the local market better. Finally, the firm keeps full control over the investment and therefore can develop manufacturing and marketing policies that serve its long-term international objectives.

› **Direct investment** – Ford has made major direct investments in several countries such as India, China, and Thailand to help satisfy Ford's increased demand in Asian markets.

The main disadvantage of direct investment is that the firm faces many risks, such as restricted or devalued currencies, falling markets, or government changes. In some cases, a firm has no choice but to accept these risks if it wants to operate in the host country.

Deciding on the Global Marketing Program

Companies that operate in one or more foreign markets must decide how much, if at all, to adapt their marketing strategies and programs to local conditions. At one extreme are global companies that use **standardized global marketing** with the same marketing approaches and marketing mix worldwide. At the other extreme is an **adapted global marketing**. In this case, the producer adjusts the marketing mix elements to each target market, bearing more costs but hoping for a larger market share and return.

Standardized global marketing
An international marketing strategy that basically uses the same marketing strategy and mix in all of the company's international markets.

Adapted global marketing
An international marketing strategy that adjusts the marketing strategy and mix elements to each international target market, bearing more costs but hoping for a larger market share and return.

The question of whether to adapt or standardize the marketing strategy and program has been much debated in recent years. On the one hand, some global marketers believe that technology is making the world a smaller place and that consumer needs around the world are becoming more similar. This paves the way for "global brands" and standardized global marketing. Global branding and standardization, in turn, result in greater brand power and reduced costs from economies of scale.

On the other hand, the marketing concept holds that marketing programs will be more effective if tailored to the unique needs of each targeted customer group. If this concept applies within a country, it should apply even more in international markets. Despite global convergence, consumers in different countries still have widely varied cultural backgrounds. They still differ significantly in their needs and wants, spending power, product preferences, and shopping patterns. Because these differences are hard to change, most marketers adapt their products, prices, channels, and promotions to fit consumer desires in each country.

However, global standardization is not an all-or-nothing proposition but rather a matter of degree. Most international marketers suggest that companies should "think globally but act locally"—that they should seek a balance between standardization and adaptation. The corporate level gives global strategic direction; regional or local units focus on individual consumer differences across global markets. "It's often a mistake to set out to create a worldwide strategy," says one expert. "Better results come from strong regional [or local] strategies brought together into a global whole." A senior marketing executive for global consumer-goods giant Unilever, puts it this way: "We're trying to strike a balance between being mindlessly global and hopelessly local."[16]

❯ **Marketing mix adaptation** – In India, McDonald's serves chicken, fish, and vegetable burgers, and the Maharaja Mac—two all-chicken patties, special sauce, lettuce, cheese, pickles, onions, on a sesame-seed bun.

McDonald's operates this way. It uses the same basic fast-food operating model in its restaurants around the world but adapts its menu to local tastes. In Korea, it sells the Bulgogi Burger, a grilled pork patty on a bun with a garlicky soy sauce. In India, where cows are considered sacred, McDonald's serves McChicken, Filet-O-Fish, McVeggie (a vegetable burger), Pizza McPuffs, McAloo Tikki (a spiced-potato burger), and the Maharaja Mac—two all-chicken patties, special sauce, lettuce, cheese, pickles, onions on a sesame-seed bun. In Hong Kong, consumers tend to accept new things from both Western and Eastern countries (e.g. Japan, Korea, and Thailand), thus, McDonald's succeeds in switching the taste of its hamburger from an American style to a Japanese style from time to time. Similarly, South Korean electronics and appliance powerhouse LG Electronics makes and markets its brands globally but carefully localizes its products to the needs of specific country markets. **Real Marketing 19.2** furnishes one view of how to win the China and Indian markets.

Product

Five strategies allow for adapting product and marketing communication strategies to a global market (see **Figure 19.3**).[17] We first discuss the three product strategies and then turn to the two communication strategies.

Communications \ Product	Don't change product	Adapt product	Develop new product
Don't change promotion	Straight extension	Product adaptation	Product invention
Adapt promotion	Communication adaptation	Dual adaptation	

◗ FIGURE 19.3
Five global product and communications strategies

Straight product extension means marketing a product in a foreign market without any change. Top management tells its marketing people, "Take the product as it is and find customers for it." The first step, however, should be to find out whether foreign consumers use that product and what form they prefer.

Straight extension has been successful in some cases and disastrous in others. Kellogg's cereals, Heineken beer, and Black & Decker tools are all sold successfully in about the same form around the world. But Philips began to make a profit in Japan only after it reduced the size of its coffeemakers to fit into smaller Japanese kitchens and its shavers to fit smaller Japanese hands. Straight extension is tempting because it involves no additional product development costs, manufacturing changes, or new promotion. But it can be costly in the long run if products fail to satisfy foreign consumers.

Straight product extension
Marketing a product in a foreign market without any change.

Product adaptation involves changing the product to meet local conditions or wants. For example, Vidal Sassoon shampoos contain a single fragrance worldwide, but the amount of scent varies by country: less in Japan, where subtle scents are preferred, and more in Europe. Gerber serves Japanese baby food fare that might turn the stomachs of many Western consumers—local favorites include flounder and spinach stew, cod roe spaghetti, mugwort casserole, and sardines ground up in white radish sauce.

Product adaptation
Adapting a product to meet local conditions or wants in foreign markets.

Product invention consists of creating something new for a specific country market. This strategy can take two forms. It might mean maintaining or reintroducing earlier product forms that happen to be well adapted to the needs of a given country. Or a company might create a new product to meet a need in a given country. For example, Chinese appliance manufacturer Haier developed sturdier washing machines for rural users in emerging markets, where it found that lighter-duty machines often became clogged with mud when farmers used them to clean vegetables as well as clothes.

Product invention
Creating new products or services for foreign markets.

Promotion

Companies can either adopt the same communication strategy they used in the home market or change it for each local market. Consider advertising messages. Some global companies use a standardized advertising theme around the world. Of course, even in highly standardized communications campaigns, some small changes might be required to adjust for language and minor cultural differences. For example, in Western markets, Dove's high-impact Campaign for Real Beauty campaign featured images of everyday women in their underwear. In the Middle East, however, where attitudes toward nudity are more conservative, the campaign was modified to simply reveal the face behind a woman's veil. In China, the campaign was adapted to address the gender imbalance that may create "leftover women,"—women who are not unconventionally beautiful. In a series of ads, the messages center on fears particular to China's popular measures of female beauty, mirroring the Dove campaign which ponders concerns over beauty. The ads featured pregnant bellies painted with questions from unborn girls. "If you knew I would grow to b a flat-nosed girl, will you still welcome me?" asks one. "If you knew I'd grow up to weigh 140 jin (70 kg), would I still be your baby?" asks another. The third: "I'll soon come to the world. But if I grow to only have an A bra cup, will you tease me?"

Real Marketing 19.2

Getting a Slice of the 'Chindia' Pie

The numbers tell a tantalizing story. China is the second largest economy in the world. Meanwhile, India is moving up fast and, according to World Bank data, has already taken the third spot. By 2020, according to a Boston Consulting Group Study, the two together will have more than one billion middle-class consumers spending trillions of dollars a year.

"The rise of these two nations is transformative," says Professor Jagdish Sheth at the National University of Singapore (NUS) Business School Asian Business Series.

Participate and Learn

"If those are the largest markets, and if you're a truly multinational enterprise, you have to participate in that market and you have to learn how to adapt to the local marketing approaches."

According to Sheth, competing in "Chindia" requires rethinking the whole idea of marketing. Most marketing strategies are based on a Western model of competition among branded products and services. But in emerging markets a majority of all consumption is unbranded. Sheth says that the largest opportunity is actually how unbranded products and services are converted into branded products and services. He feels that in consumer markets this is very important because brands are not only revenue producers but they create assets. Just as Japanese and Korean companies have created globally-known and respected brands, Sheth expects the next major brands to come out of China and India. This demand for brands is being driven in part by an increasingly brand-conscious middle class. But it's also spurred by advances in technology, including mobile phones and online retailing, which allow companies quick and direct access to consumers. Furthermore, as the consumer population of developed economies ages, companies are looking for growth in the emerging markets. The economic reforms in India and China have also encouraged consumption among the populations there.

Affordable and accessible

So how do multinational companies take advantage of these burgeoning markets? Sheth offers a few strategies that could be put to use. First, he suggests converting non-users into users. "Most marketers think OK, if I'm Procter & Gamble I must compete with Unilever or if I'm a Coca-Cola I must compete with Pepsi. No. You don't compete among yourselves. There's a whole market out there."

To succeed in these fast-changing markets, Sheth says companies must also democratize innovation, making products affordable and accessible for consumers at the base of the socio-economic pyramid. Once established, these companies can implement reverse innovation, improving quality to reach the higher levels. That's counterintuitive to most MNCs, which Sheth says would go after the top of the market first. He says it is also important for companies invest in packaging and design that takes local culture and customs into account.

Something to Chew On

He took the interesting tale of Chiclets chewing gum as an example. Packaged eight pieces to a pack, as it is in Western markets, it failed in India. It turns out consumers only chewed a couple of pieces at a time and the rest would end up melting in the box in the sultry Indian climate. With that research in hand, the gum was repackaged into two-piece packs—and it took off. "In marketing we don't talk about packaging and design as a core competency," Sheth says, but in this case it made all the difference. Even though he lumps the two economies together as "Chindia," he cautions that they are two very different markets, and that only a few companies have done well in both.

Car makers like Nissan and Ford have succeeded in both markets, as have some appliance makers and consumer electronics companies. In the fast-food sector KFC and McDonald's appeal to the appetites of both Chinese and Indian consumers. With their growing populations, growing affluence and easier access to consumer goods, it seems it will be hard to stop the dual economic juggernauts of China and India.

However, Sheth says there are some obstacles ahead, the biggest being sustainability. He stated that the only thing that stopped China and India from growing economically was not technology or capital, but the environment. He said it is in the self-interest of China and India to massively invest in the environmental aspects. Sheth also pointed out that China is serious about cleaning up its act and taking a lead on these issues. India on the other hand he says is not taking the environmental aspects as seriously. China will also have to face its own aging population with Sheth predicting that will lead to a slowdown in its growth beginning around 2020. That, coincidentally, is about the time he says India's growth could really take off—provided it can improve its infrastructure to smooth out its distribution problems. It also has to change its industrial policy to become more investor friendly.

However, he sounds optimistic they will put things right and he says it will be very interesting to watch the two grow.

Source

Adapted from Katie Sargent, "Getting a Slice of the 'Chindia' Pie," *Think Business*, 21 May 2014. Partially reproduced with permission of Think Business @ NUS Business School, National University of Singapore (http://thinkbusiness.nus.edu) Copyright NUS Business School.

❯ Professor Jagdish Sheth talks about Chiclets chewing gum as an example of how product packaging helped the brand to take off in India.

Colors are changed sometimes to avoid taboos in other countries. Red is a lucky color in China, and is commonly used in many aspects of Chinese life.

Colors are also sometimes changed to avoid taboos in other countries. Purple is associated with death in most of Latin America, white is a mourning color in Japan, red is a lucky color in China, and green is associated with jungle sickness in Malaysia.[18] Even names must be changed. Kellogg had to rename Bran Buds cereal in Sweden, where the name roughly translates as "burned farmer." And in the Americas, Mitsubishi changed the Japanese name of its Pajero SUV to Montero—it seems that *pajero* in Spanish is a slang term for sexual self-gratification.[19]

Other companies follow a strategy of **communication adaptation**, fully adapting their advertising messages to local markets. For example, in the United States and most Western countries, where running is accepted as a positive, healthy activity, Nike ads focus on products and personal performance. In China, however, running is viewed as a boring sport, or even a punishment—something rigorous and painful. It's not something that most people in Asia's polluted cities choose to do, especially on streets jammed with pedestrians, bicycles, and cars. However, China is the largest footwear market in the world, offering huge untapped potential for Nike. So, in China, instead of pushing products and performance, Nike's ads focus on getting more Chinese to put on running shoes. Ads and social media feature ordinary people who choose to run on city streets,letting them relate their reasons in their own words. "I run to make the hidden visible," says one young woman. "I run to get lost," says another.

Communication adaptation
A global communication strategy of fully adapting advertising messages to local markets.

To make running a more social activity, Nike also sponsors nighttime "Lunar Runs" in big cities like Beijing and marathons in Shanghai, featuring fitness instructors, live music, and celebrities to introduce Chinese students and professionals to running as a fun and rewarding after-class or after-work activity. The goal is to get more people to at least give running a try.

Media also needs to be adapted internationally because media availability varies from country to country. TV advertising time is very limited in Europe, for instance, ranging from four hours a day in France to none in Scandinavian countries. Advertisers must buy time months in advance, and they have little control over airtimes. Magazines also vary in effectiveness. For example, magazines are a major medium in Italy but a minor one in Austria. Newspapers are national in the United Kingdom but are only local in Spain.[20]

Communication adaptation – Coca-Cola sells its low-calorie beverage as Diet Coke in North America, the United Kingdom, and the Middle and Far East but as Light elsewhere.

Price

Companies also face many problems in setting their international prices. For example, how might Black & Decker price its power tools globally? It could set a uniform price all around the world, but this amount would be too high a price in poor countries and not high enough in rich ones. It could charge what consumers in each country would bear, but this strategy ignores differences in the actual costs from country to country. Finally, the company could use a standard markup of its costs everywhere, but this approach might price Black & Decker out of the market in some countries where costs are high.

Regardless of how companies go about pricing their products, their foreign prices probably will be higher than their domestic prices for comparable products. A Gucci handbag may sell for $60 in Italy and $240 in the United States. Why? Gucci faces a *price escalation* problem. It must add the cost of transportation, tariffs, importer margin, wholesaler margin, and retailer margin to its factory price. Depending on these added costs, the product may need to sell for two to five times as much in another country to make the same profit.

To overcome this problem when selling to less-affluent consumers in developing countries, companies make simpler or smaller versions of their products that can be sold at lower prices. Others have introduced new, more affordable brands for global markets. For example, Motorola developed the ultra-cheap Moto G smartphone and introduced it in Brazil, then in other parts of South America, the Middle East, India, and Asia. This put pressure on Apple, which had focused on selling older models at reduced prices rather than developing cheaper models. With Samsung and Xiaomi nipping on Apple's heels, Apple introduced the cheaper C version of its iPhone. Local Indian phone maker Ringing Bells has introduced a 251 rupee ($3.70) smartphone.

Recent economic and technological forces have had an impact on global pricing. When the exchange rate of China's renminbi was lower than the Hong Kong dollar (say, HK$100:105 yuan), more Hong Kong citizens went to Shenzhen during the weekend for vacations. Now, the renminbi's rate is higher than the Hong Kong dollar (say, HK$100:86 yuan), more China travelers come to Hong Kong to shop.

The Internet is also making global price differences more obvious. When firms sell their wares over the Internet, customers can see how much products sell for in different countries. They might even be able to order a given product directly from the company location or dealer offering the lowest price. This will force companies toward more standardized international pricing.

Distribution Channels

The international company must take a **whole-channel view** of the problem of distributing products to final consumers. **Figure 19.4** shows the three major links between the seller and the final buyer. The first link, the *seller's headquarters organization*, supervises the channels and is part of the channel itself. The second link, *channels between nations*, moves the products to the borders of the foreign nations. The third link, *channels within nations*, moves the products from their foreign entry point to the final consumers. Some U.S. manufacturers may think their job is done once the product leaves their hands, but they would do well to pay more attention to its handling within foreign countries.

Whole-channel view
Designing international channels that takes into account the entire global supply chain and marketing channel, forging an effective global value delivery network.

Channels of distribution within countries vary greatly from nation to nation. First, there are the large differences in the *numbers and types of intermediaries* serving each foreign market. For example, a U.S. company marketing in China

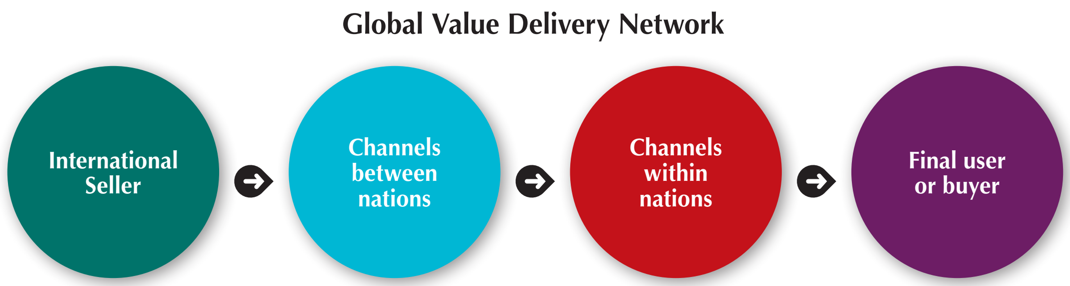

FIGURE 19.4
Whole-channel concept for international marketing

must operate through a frustrating maze whereas large-scale retail chains dominate the U.S. scene, India and Indonesia have millions of family-owned retailers operating small shops or sell in open markets.

When Coke first entered China, for example, customers bicycled up to bottling plants to get their soft drinks. Many shopkeepers still don't have enough electricity to run soft drink coolers. Now, Coca-Cola has set up direct-distribution channels, investing heavily in refrigerators and trucks, and upgrading wiring so that more retailers can install coolers. The company has also built an army of more than 10,000 sales representatives that makes regular visits on resellers, often on foot or bicycle, to check on stocks and record sales. "Coke and its bottlers have been trying to map every supermarket, restaurant, barbershop, or market stall where a can of soda might be consumed," notes an industry observer. "Those data help Coke get closer to its customers, whether they are in large hypermarkets, spartan noodle shops, or schools." Still, to reach the most isolated spots in the country, Coca-Cola relies on some pretty unlikely business partners—teams of delivery donkeys. "Massive advertising budgets can drum up demand," says another observer, "but if the distribution network doesn't exist properly or doesn't work, the potential of China's vast market cannot be realized."[21]

❯ Distribution channels vary from market to market. Whereas consumer brands sold in Western superstores like Wal-Mart or Carrefour rely on self-service, these brands in China hire armies of in-store promoters to give out samples and encourage people to buy.

Even in markets where there are similar sellers, retailing practices can vary widely. In China, for instance, there are Wal-Marts, Carrefours, Tescos, and other retail superstores. While consumer brands in such stores in Western markets rely on self-service, brands in China hire uniformed in-store promoters—called "promoter girls" or "push girls"—to dispense samples. Wearing microphones, these promoter girls pitch the products person to person. On a given weekend in Beijing Wal-Mart, there are over 100 such promoters, acquainting customers with products from Kraft, Unilever, Procter & Gamble, Johnson & Johnson, and a slew of local competitors. Although Chinese consumers know the brand name through the media, they want to feel the product and get a detailed understanding before they make a purchase.

Deciding on the Global Marketing Organization

Companies manage their international marketing activities in at least three different ways: Most companies first organize an export department, then create an international division, and finally become a global organization.

A firm normally gets into international marketing by simply shipping out its goods. If its international sales expand, the company organizes an *export department* with a sales manager and a few assistants. As sales increase, the export department can expand to include various marketing services so that it can actively go after business. If the firm moves into joint ventures or direct investment, the export department will no longer be adequate. Many companies get involved in several international markets and ventures. A company may export to one country, license to another, have a joint ownership venture in a third, and own a subsidiary in a fourth. Sooner or later it will create *international divisions* or subsidiaries to handle all its international activity. International divisions are organized in a variety of ways. An international division's corporate staff consists of marketing, manufacturing, research, finance, planning, and personnel specialists. It plans for and provides services to various operating units, which can be organized in one of three ways. They can be *geographical organizations*, with country managers who are responsible for salespeople, sales branches, distributors, and licensees in their respective countries. Or the operating units can be *world product groups*, each responsible for worldwide sales of different product groups. Finally, operating units can be *international subsidiaries*, each responsible for its own sales and profits.

Many firms have passed beyond the international division stage and become truly *global organizations*. They stop thinking of themselves as national marketers who sell abroad and start thinking of themselves as global marketers. The top corporate management and staff plan worldwide manufacturing facilities, marketing policies, financial flows, and logistical systems. The global operating units report directly to the chief executive or executive committee of the organization, not to the head of an international division. Executives are trained in worldwide operations, not just domestic *or* international. The company recruits management from many countries, buys components and supplies where they cost the least, and invests where the expected returns are greatest.

Today, major companies must become more global if they hope to compete. As foreign companies successfully invade their domestic markets, companies must move more aggressively into foreign markets. They will have to change from companies that treat their international operations as secondary, to companies that view the entire world as a single borderless market.

› European household, health, and consumer goods producer Reckitt Benckiser has a truly global organization. "Most of our top managers . . . view themselves as global citizens rather than as citizens of any given nation."

Reviewing Objectives and Key Terms

Companies today can no longer afford to pay attention only to their domestic market, regardless of its size. Many industries are global industries, and firms that operate globally achieve lower costs and higher brand awareness. At the same time, global marketing is risky because of variable exchange rates, unstable governments, protectionist tariffs and trade barriers, and several other factors. Given the potential gains and risks of international marketing, companies need a systematic way to make their global marketing decisions.

OBJECTIVE 1 Discuss how the international trade system and the economic, political-legal, and cultural environments affect a company's international marketing decisions. (pp. 607–614)

A company must understand the *global marketing environment*, especially the international trade system. It must assess each foreign market's *economic*, *political-legal*, and *cultural characteristics*. The company must then decide whether it wants to go abroad and consider the potential risks and benefits. It must decide on the volume of international sales it wants, how many countries it wants to market in, and which specific markets it wants to enter. These decisions call for weighing the probable rate against the level of risk.

OBJECTIVE 2 Describe three key approaches to entering international markets. (pp. 614–621)

The company must decide how to enter each chosen market—whether through *exporting*, *joint venturing*, or *direct investment*. Many companies start as exporters, move to joint ventures, and finally make a direct investment in foreign markets. In *exporting*, the company enters a foreign market by sending and selling products through international marketing intermediaries (indirect exporting) or the company's own department, branch, or sales representative or agents (direct exporting). When establishing a *joint venture*, a company enters foreign markets by joining with foreign companies to produce or market a product or service. In *licensing*, the company enters a foreign market by contracting with a licensee in the foreign market, offering the right to use a manufacturing process, trademark, patent, trade secret, or other item of value for a fee or royalty.

OBJECTIVE 3 Explain how companies adapt their marketing mixes for international markets. (pp. 621–628)

Companies must also decide how much their products, promotion, price, and channels should be adapted for each foreign market. At one extreme, global companies use *standardized global marketing* worldwide. Others use *adapted global marketing*, in which they adjust the marketing strategy and mix to each target market, bearing more costs but hoping for a larger market share and return. However, global standardization is not an all-or-nothing proposition. It's a matter of degree. Most international marketers suggest that companies should "think globally but act locally"—that they should seek a balance between globally standardized strategies and locally adapted marketing mix tactics.

OBJECTIVE 4 Identify the three major forms of international marketing organization. (pp. 628–629)

The company must develop an effective organization for international marketing. Most firms start with an *export department* and graduate to an *international division*. A few become *global organizations*, with worldwide marketing planned and managed by the top officers of the company. Global organizations view the entire world as a single, borderless market.

Key Terms

OBJECTIVE 1
Global firm (p 607)
Economic community (p 609)

OBJECTIVE 2
Exporting (p 619)
Joint venturing (p 619)
Licensing (p 619)
Contract manufacturing (p 620)
Management contracting (p 620)
Joint ownership (p 620)
Direct investment (p 621)

OBJECTIVE 3
Standardized global marketing (p 621)
Adapted global marketing (p 621)
Straight product extension (p 623)
Product adaptation (p 623)
Product invention (p 623)
Communication adaptation (p 626)
Whole-channel view (p 627)

Discussing the Concepts

1. Explain what is meant by the term *global firm* and list the six major decisions involved in international marketing. (AACSB: Communication)
2. Discuss the types of restrictions governments might impose on trade between nations. (AACSB: Communication)
3. Name and define the four types of country industrial structures. (AACSB: Communication)
4. What factors do companies consider when deciding on possible global markets to enter? (AACSB: Communication; Reflective Thinking)
5. Discuss the three ways to enter foreign markets. Which is the best? (AACSB: Communication; Reflective Thinking)
6. Discuss how global distribution channels differ from domestic channels. (AACSB: Communication)

Applying the Concepts

1. Visit the Web site of the Royal Thai Consulate-General in Hong Kong at www.thai-consulate.org.hk. Discuss doing business in Thailand.
2. The United States restricts trade with North Korea. Visit the U.S. Department of the Treasury Web site at www.ustreas.gov/offices/enforcement/ofac to learn more about economic and trade sanctions. Click on the "Other Sanctions" link to learn more about the trade restrictions on North Korea. Is this restriction a tariff, quota, or embargo? To what extent does this trade restriction allow U.S. businesses to export their products to North Korea?
3. Visit www.transparency.org and click on "corruption perception index." What is the most recent Corruption Perceptions Index (CPI) for the following countries: Denmark, Jamaica, Malaysia, Myanmar, New Zealand, Somali, and the United States? What are the implications of this index for U.S.-based companies doing business in these countries? (AACSB: Communication; Use of IT; Reflective Thinking)
4. Visit the Central Intelligence Agency's World Factbook at www.cia.gov/library/publications/the-world-factbook. In a small group, select a country and describe the information provided about that country on this site. How is this information useful to marketers? (AACSB: Communication; Use of IT; Reflective Thinking)

Focus on Technology

"Reverse innovation," "innovation blowback," and "trickle-up innovation" are terms used to describe the process by which innovations developed to meet the needs of emerging markets make their way into developed markets. Traditionally, innovations are birthed in developed countries, with older models later offered in lower-income markets, such as India and China. Although many "bottom of the pyramid" emerging markets are low on the economic food chain, they are large in numbers, providing opportunities for businesses that meet growing needs at an affordable price. GE, the dominant maker of expensive electrocardiograph (ECG) machines sold to hospitals, developed a lower-priced, small, battery-powered ECG machine for use in India and China. GE then marketed this product to primary care doctors, visiting nurses, and rural hospitals and clinics in the United States. Reverse innovation is not limited to technological products; it can apply to products as basic as yogurt.

1. Learn more about how GE used reverse innovation to capitalize on opportunities in the United States. Find two other examples of reverse innovation for technological products. (AACSB: Communication; Reflective Thinking)
2. Discuss two examples of reverse innovation for non-technology products. (AACSB: Communication; Reflective Thinking)

Focus on Ethics

In Hong Kong, the Hong Kong Jockey Club is the authored operator of horse racing, Mark Six lottery, and betting on football matches held outside Hong Kong. The Club is the largest single taxpayer in Hong Kong —the company tax paid in the financial year 2006/07 was HK$12.64 billion or about 8.2 percent of all taxes collected by the Government's Inland Revenue Department. In the 1970s, the growth of the sport's popularity was accompanied by an increase in illegal bookmaking. The Government authorized the Club to operate off-course betting branches to tackle illegal gambling head-on. Since then, the Mark Six lottery and regulated football betting have also been introduced to combat illegal gambling. In 2003, the Club launched regulated football betting services with the same aim—to combat illegal gambling. Besides the Club, the Government authority also offers betting licenses to the local Chinese traditional gambling houses for "mahjong" gambling. The Government takes necessary action and control to combat illegal gambling within the Hong Kong territory. However, it hardly stops illegal betting by phone, online gambling, and the "mobile" casino on the cruise which is only operated outside the Hong Kong sea boundary.

1. Should the Hong Kong Government authorize the Club to set up the online casino for the citizens?
2. Would the Club give the award to the person who provides the illegal gambling transaction information and would the police make use of the information to put the involved parties/person on official criminal charges?

Marketing & the Economy

SPAM

For decades, SPAM (the Hormel canned meat product, not unwanted email) has been the brunt of bad jokes. But it's all in good fun, as consumers all around the world gobble up hundreds of millions of dollars worth of the pork concoction every year. In the United Kingdom, deep-fried SPAM slices—known as SPAM fritters—adorn menus at fish and chips shops. In Japan, it's an ingredient in a popular stir-fry dish. South Koreans eat the meat with rice or wrap it up in sushi rolls. In Hawaii, even McDonald's and Burger King sell SPAM specialties.

But here's one of the most interesting things about SPAM: the "SPAM Index." Over the years, SPAM sales have been so strongly and inversely correlated with economic indicators that some analysts consider the canned meat's revenues themselves as an index of economic conditions. The Great Recession was no exception. SPAM experienced double-digit increases in sales after economists officially announced the beginning of the recession. Hormel responded by launching SPAM's first major advertising campaign in five years. Radio, TV, and print ads carried a "Break the Monotony" message, showing how SPAM could breathe new life into home-cooked meals. The Hormel Web site boasted

350 new SPAM recipes, including Cheesy Country SPAM Puff, SPAMaroni, and SPAM Lettuce Wraps. A little bit of SPAM goes a long way.

1. Why does SPAM have such universal appeal to global consumers?
2. What recommendations would you make to Hormel to keep SPAM sales high when the economy is once again strong?

Marketing by the Numbers

A country's import/export activity is revealed in its balance-of-payments statement. This statement includes three accounts: the current account, the capital account, and the reserves account. The current account is most relevant to marketing because it is a record of all merchandise exported from and imported into a country. The latter two accounts record financial transactions. The U.S. Department of Commerce's Bureau of Economic Analysis provides yearly and monthly figures on the country's trade in goods and services.

1. Visit www.bea.gov and find the U.S. international trade in goods and services for the most recent year available. What does that number mean? (AACSB: Communication; Use of IT; Reflective Thinking)
2. Search the Internet for China's balance-of-trade information for the same year. How does it compare to that of the United States? (AACSB: Communication; Use of IT; Reflective Thinking)

Video Case

Monster

In 1994, Monster Worldwide pioneered job recruiting on the Internet with Monster.com. Today, it is the only online recruitment provider that can service job seekers and job posters on a truly global basis. With a presence in 50 countries around the world, Monster has unparalleled international reach. And although global economic woes have hindered the growth of corporations everywhere, Monster is investing heavily with plans to become even bigger worldwide. Most recently, Monster's international expansion has included the purchase of ChinaHR.com giving it a strong presence in the world's largest country. Monster already gets about 45 percent of its annual revenue of $1.3 billion from outside the United States. But it expects to become even more global in the coming years. To back that geographic expansion, Monster is also inventing heavily in search technologies and Web design to appeal to clients everywhere.

After viewing the video featuring Monster Worldwide, answer the following questions about the company and the global marketplace:

1. Which of the five strategies for adapting products and promotion for global markets does Monster employ?
2. Which factors in the global marketing environment have challenged Monster's global marketing activities most? How has Monster met those challenges?

Company Case

Snickers: Achieving Promotional Integration with a Universal Appeal—Hunger

Over the years, many Super Bowl ads have scored well with viewers and provided a big boost to their brands. Snickers aired one such ad during the 2010 Super Bowl. In the ad, during a neighborhood pickup football game, Golden Girl Betty White appeared as a player who was "playing like Betty White." After biting into a Snickers chocolate, however, the football player turned back into himself and the play ensued. The ad ended with the now famous slogan, "You're not you when you're hungry," followed by the tagline, "Snickers satisfies."

This ad proved to be a turning point for Snickers. It generated tremendous buzz for the brand. According to Nielsen, it was the "best-liked spot" of that year's Super Bowl. It had the highest score on *USA Today's* Ad Meter and received top honors from many other sources. It went viral, racking up millions of views online. It sparked endless free media for the candy bar brand. It even marked a comeback for Betty White, who went on to host Saturday Night Live and score numerous roles on television shows, including that of octogenarian Elka Ostrovsky on the TV Land series Hot in Cleveland.

But this promotional event was far more than just a single hit ad. It became the cornerstone for a long-term integrated campaign that would eventually see Snickers become the best-selling confection on the planet.

Satisfying from the Start

Not only is Snickers now the biggest candy bar brand, it's one of the oldest. In the late 1920s, a young Mars Inc. started developing a candy bar to complement its own Milky Way. Combining common candy bar ingredients like chocolate, nougat, caramel, and whole peanuts, it came up with a winning formula. Heartier than most candy bars, Snickers acted more like a meal than a snack. The brand was an instant success, even selling initially at four times the price of the Milky Way bar. Within a decade, the company was mass-marketing the Snickers in global markets.

In 1979, Ted Bates Worldwide coined the tagline, "Snickers really satisfies," a direct reference to the bar's stomach filling properties. Often pitched as a meal alternative, Snickers targeted young athletic males. One classic print ad showed an approving mother sending her son off to football practice with a Snickers bar.

Snickers enjoyed years of growth before saturating that market and winding up in a rut characterized by flat sales growth and a loss of market share. Mars decided to take the brand in a new strategic direction. It set out to create an integrated marketing campaign that would retain the essence of the brand but achieve greater growth by appealing to new markets.

However, developing an effective integrated campaign is easier said than done. These days, companies everywhere are shooting for one and agencies claim to offer one. But in reality, true integration of marketing communications is rarely achieved. Integration requires more than merely using the same language or symbols in every element of the campaign. At a minimum, an integrated campaign must work equally well across TV, online, print, and outdoor media. Beyond that, the campaign's message must take a unique aspect of the brand and present it in a way that is both powerful and engaging, thus motivating consumers to act.

But Mars found a winning campaign created by agency BBDO. The agency started with the unique attribute that had been associated with Snickers for decades—"satisfying." Although the famous tagline "Snickers satisfies" had been used to primarily target young men, BBDO found that the line was far more robust. By appending "Snickers satisfies" with "You're not you when you're hungry," the brand tapped into a powerful and universal emotional appeal—hunger—relevant to a much broader audience. After all, who can't relate to hunger? "Now, Snickers is talking to the factory worker, the office worker, the college student," says one marketing expert. It's as powerful for women as it is for men. And it works across world cultures.

A Global Campaign

The Snickers "You're not you when you're hungry" campaign has spawned plenty of traditional mass-media ads—dozens of different television ads have run in more than 80 different countries. The campaign draws heavily on well-known local celebrities. One memorable ad features Robin Williams as a football coach instructing his team to "kill them—with kindness," by making balloon animals and tea cosies. In another, lumberjack Roseanne Barr complains "My back hurts!" just before she is flattened by an enormous log being moved by a crane. In a more recent ad introducing the new Snickers Bites, a poker-playing Kenny G is pronounced "a buzzkill when you're hungry" by one of his buddies at the table. The Snickers team lets local markets plug their own celebrities. In the United Kingdom, hunger turns footballers in a locker room into Joan Collins and

Stephanie Beacham. In Latin America, its men on BMX bikes turning into Mexican singer Anahí.

But such traditional media advertising serves as only one pillar of this integrated campaign. The "You're not you when you're hungry" message has also rolled out across Facebook, Twitter, and other social networks. In the UK, celebrities tweeted things that were, for them, completely out of character. Supermodel Katie Price posted about quantitative easing, liquidity in the bond market, and the political economy. Footballer Rio Ferdinand posted about the joys of knitting. Cricketer Ian Botham waxed eloquent about learning to play the cello. And boxer Amir Khan tweeted about stamp collecting. These celebrity tweets were followed by an additional tweet showing them eating a Snickers accompanied by the "You're not you" tagline. The out-of-character tweets created lots of buzz, including a mention in Parliament. "It's come to something," exclaimed the UK's Chief Secretary to the Treasury, Danny Alexander, "When Katie Price's tweets make more sense on the economy than the Labour front bench."

Other elements illustrate the Snickers campaign's flexibility across media platforms, such as print and outdoor, with or without celebrities. One ad shows three sprinters in start position on a track, one of them facing the wrong direction. Another shows four soccer players in position to block a direct kick, all covering their crotches save one who is gazing off into the distance. One print ad gets the point across without using humans at all. In an extreme reversal of roles, it shows a zebra in hot pursuit of a lion. Each simple visual is accented by a cross section of the inside of a Snickers bar and the phrase, "You're not you when you're hungry. Snickers satisfies."

The campaign not only illustrates integration across different media types, it also accomplishes one of the most important feats of a modern promotional campaign—integration through content sharing. For example, ads like the Betty White Super Bowl spot themselves get things rolling. But other ads, tweets, and social media posts by the brand also spur sharing. For example, Snickers' 11 million Facebook fans receive frequent messages such as "Slow afternoon? Might be time for your secret SNICKERS stash," accompanied by a picture of a Snickers bar in an office desk drawer. On average, thousands of fans "like" each message and often place them in newsfeeds where they are seen by tens of thousands more.

A more complex example is a live stunt captured and edited into a short YouTube film for the Australian market. Actors posing as workers at a downtown Melbourne construction site shouted out to female passersby. But rather than sexist catcalls and suggestive comments, in line with the "You're not you" theme, the workers shouted out empowering statements. Women were clearly caught off guard by statements such as "I'd like to show you the respect you deserve!" and "A woman's place is where she chooses." One worker gets a woman's attention by shouting out, "You know what I'd like to see?" She is noticeably amused when he continues, "A society in which the objectification of women makes way for gender-neutral interaction free from assumptions and expectations." The clip ends with one of the workers leading the others in a rousing call. "What do we want? Equality! What don't we want? Misogony!" Within weeks, the clip had racked up more than 3 millions views on the Snickers Australia brand channel.

Year after Year, It Keeps on Satisfying

After more than four years, Mars Inc. continues to infuse the various elements of its global promotional campaigns with the "Snickers satisfies" and "You're not you when you're hungry" taglines. How has it kept this campaign going on such a broad and global scale? "You're not you" strikes at the core of a universal human emotion— that a person gets a bit cranky and out of sorts when he or she hasn't eaten for a while. "Peanut power was always at the heart of the brand," explains Debra Sandler, president of Mars Chocolate North America. By retaining the key word "satisfies," Mars retained all the brand familiarity it earned through years of promoting the old slogan. But by taking a storytelling approach and illustrating the effect that hunger has on people, Mars gave the brand a more emotional and powerful appeal. The message today is that Snickers is "the bar of substance that sorts you out," says Sandler.

It's sometimes difficult to measure the success of an integrated marketing campaign. The fact that Mars has kept this campaign running suggests that the effort is succeeding in spades. And in the case of "You're not you when you're hungry," the numbers seem to say it all. Prior to the start of the campaign in 2010, the iconic chocolate bar was losing share in a very competitive market. But not long after Betty White made her Super Bowl debut, Snickers surpassed both Trident gum and Mars's own M&M's to become the bestselling confection on Earth. With a portfolio that now includes Snickers Dark, Snickers Almond, Snickers Peanut Butter Squared, Snickers Bites, and Snickers Ice Cream bars, the Snickers franchise now contributes more than $3.5 billion to Mars Inc.'s $33 billion revenues. All this just goes to show that an integrated message combining a salient brand attribute with a compelling emotional appeal can live on indefinitely.

Questions for Discussion

1. Which promotional mix elements does Snickers use?
2. AreHow does this Snickers campaign demonstrate the characteristics of integration?
3. What grade would you give Snickers on integration effectiveness?
4. What challenges does Mars Inc. face in maintaining the success it has achieved with the "You're not you" campaign?
5. What recommendations would you make to Mars Inc. for future Snickers promotional efforts?

Sources

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Objective Outline

OBJECTIVE 1
Define sustainable marketing and discuss its importance.
Sustainable Marketing (641–642)

OBJECTIVE 2
Identify the major social criticisms of marketing.
Social Criticisms of Marketing (643–652)

OBJECTIVE 3
Define consumerism and environmentalism and explain how they affect marketing strategies.
Consumer Actions to Promote Sustainable Marketing (652–658)

OBJECTIVE 4
Describe the principles of sustainable marketing.
Business Actions toward Sustainable Marketing (659–662)

OBJECTIVE 5
Explain the role of ethics in marketing.
Marketing Ethics (663–665)
The Sustainable Company (665)

Chapter 20

Sustainable Marketing: Social Responsibility and Ethics

Previewing the Concepts

In this final chapter, we'll examine the concepts of sustainable marketing, meeting the needs of consumers, businesses, and society—now and in the future—through socially and environmentally responsible marketing actions. We'll start by defining sustainable marketing and then look at some common criticisms of marketing as it impacts consumers and public actions that promote sustainable marketing. Finally, we'll see how companies can benefit from proactively pursuing socially responsible and ethical practices that bring value not just to individual customers, but to society as a whole.

First, let's visit the concept of corporate social responsibility. Consider the Tata Group, one of India's largest conglomerate comprising over 90 companies in seven business sectors, including engineering, materials, information technology, communications, automotives, chemicals, and energy. The group firmly believes that it can do well by doing good. Here's the story.

Tata Group, India: Doing Business with a Heart

Tata Chairman Cyrus Pallonji Mistry, who took over the reins in 2012 from Ratan Tata, oversees the Tata Group, one of India's largest conglomerates. With over 611,794 employees, Tata Group's revenues amounted to $108.78 billion in 2014–15. The Tata Group has operations in more than 100 countries across six continents, and its over 90 companies export products and services to 140 nations.

Tata's corporate slogan is "Improving the quality of life of the communities we serve." This mission dates back to the group's founding in the 1870s by Ratan Tata's grandfather, Jamsetji, who was a pioneering philanthropist and fervent nationalist. Jamsetji Nusserwanji Tata opened India's first textile mill, mainly to wean Indians from their industrial dependence on Britain. Tata offered worker benefits such as child care and pensions long before most Western companies. One of Jamsetji's sons financed a young Mahatma Gandhi while he fought for the rights of immigrant Indians in South Africa.

To this day, the Tata Group remains devoted to good works. Charitable trusts own two-thirds of the shares in its parent company Tata Sons. Many of the group's businesses fund grassroots anti-poverty projects that seem far removed from their core operations. Tata also has a reputation for being an honest company. It has avoided major business and political scandals, a

> Tata Group remains devoted to good works. Charitable trusts own two-thirds of the shares in its parent company Tata Sons.

The Tata Group believes in corporate social responsibility. It builds irrigation systems for villagers, and schools and hospitals for the poor.

remarkable record in a country where corruption is not uncommon. The group had occasionally lost deals because it would not pay bribes, according to former Chairman Ratan Tata. According to the company's vision statement, Vision 2025, the company wants 25 percent of the world's population to experience an improved quality of life with the help of the Tata commitment, through long-term stakeholder value creation based on leadership and trust.

Having been with the Group for for a few years, Mistry has had his fair share of challenges. While the market cap of all listed Tata group entities has seen a strong 56 percent run-up the performance of individual group companies has diverged. Tata Steel and Tata Motors struggled with weakness in the domestic and overseas markets respectively. The Tatas are also trying to keep up with changing business models and emerging new business opportunities. It is the first integrated steel plant in Asia and the world's second-most geographically diversified steel producer. A visit to Tata Steel's production base in Jamshedpur provides insights into Tata culture at its most generous. Named after the founder of the group and carved out of a jungle in the 1900s, Jamshedpur resembles a time capsule of a more paternalistic industrial age. Statues of Tata chairmen, some erected by grateful employees, are everywhere, and are a testament to a unique cult of personality.

Jamshedpur's biggest employer is Tata Steel. Even though it employs only 20,000 of the city's 700,000 residents, the company still provides Jamshedpur the most comprehensive social services of any Indian city. At a cost of $40 million a year, Tata Steel pays for water, schools, garbage removal, hospitals, and even rogue elephant hunters. However, in the early 1990s, India started opening up to global competition. The 100-year-old company was saddled with antiquated plants, a bloated payroll, and "no market orientation … we were a good study in demise," recalls its managing director B. Muthuraman. Aside from a $2.5 billion plant modernization program, Tata Steel laid off 35,000 workers in 1999 to cut costs. Yet it agreed to pay the workers full salaries until the age of 60 and provide them lifelong health care. In contrast, rival Essar produces about half of Tata Steel's output with just 1,300 employees. One survey of Indian companies by *Business Today*, an Indian magazine, and consultancy Stern Stewart ranked Tata Steel 496th out of 500 Indian companies in terms of value created by management.

The Tata Group says it wants to "privatize" the services it provides, betraying its view of Tata being Jamshedpur's *de facto* government. However, former Tata Steel CEO Jamshed Irani insists that the welfare net "is what makes Tata great." Indeed, Tata Steel still spends millions annually on education, health, and agricultural development projects in 800 villages around Jamshedpur. For example, thanks to Tata funding, the families in Sidhma Kudhar now have irrigation systems that allow them to grow rice crops and a variety of vegetables. The hillsides are covered with thousands of mahogany and teak seedlings as well as jatropha bushes for future income. In the heart of the city lies Jubilee Park, a scrupulously designed park gifted by Tata Steel. It is spread over 37.75 acres dotted with flowerbeds and fountains. Most children attend classes in the refurbished school, and the village has three TVs, powered by Tata solar units that also supply electricity for lights and clocks. Tata also sponsors a zoo and the 914-bedded Tata Main Hospital.

Ratan Tata had defended this practice: "Yes, it's expensive to run Jamshedpur, and yes, we are scaling back our commitment there, but we are also proud that we've never had serious industrial problems. There has got to be a reason for that." At Tata, being loved may be more highly prized than being profitable.

In October, 2006, Anglo-Dutch steelmaker Corus considered a takeover bid of $7.6 billion from Tata. The deal was finalized in January, 2007, with Tata Steel purchasing a 100 percent stake in Corus. The deal was the largest Indian takeover of a foreign company and it helped Tata Steel become the fifth-largest steel group in the world. To address specific business issues, a Strategic and Integration Committee was created. This committee, along with cross-functional teams under it, was to develop and execute the integration and further growth plans. Looking ahead, Mistry has said that in the context of the new challenges like the changing climate, the group's progress may certain face short-term obstacles.[1]

Responsible marketers discover what consumers want and respond with market offerings that create value for buyers to capture value in return. The *marketing concept* is a philosophy of customer value and mutual gain. Its practice leads the economy by an invisible hand to satisfy the many and changing needs of millions of consumers.

However, not all marketers follow the marketing concept. Some companies use questionable marketing practices, and some well-intended marketing actions might cause immediate or future harm to the larger society. Responsible marketers must consider whether their actions are sustainable in the long run.

This chapter examines sustainable marketing and the social and environmental effects of private marketing practices. First, we address the question: What is sustainable marketing and why is it important?

Sustainable Marketing

Sustainable marketing calls for socially and environmentally responsible actions that meet the present needs of consumers and businesses while also preserving or enhancing the ability of future generations to meet their needs. **Figure 20.1** compares the sustainable marketing concept with other marketing concepts we studied in earlier chapters.

Sustainable marketing
Socially and environmentally responsible marketing that meets the present needs of consumers and businesses while also preserving or enhancing the ability of future generations to meet their needs.

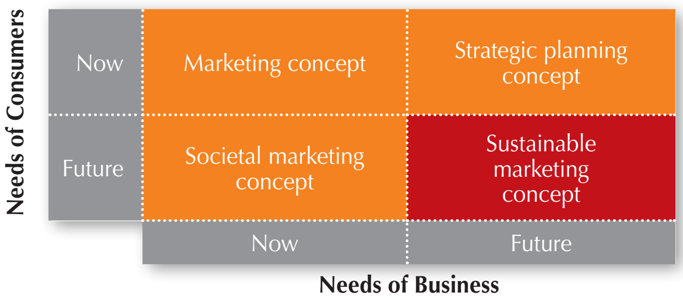

FIGURE 20.1
Sustainable marketing

The *marketing concept* recognizes that organizations thrive from day to day by determining the current needs and wants of target group customers and fulfilling those needs and wants more effectively and efficiently than the competition. It focuses on meeting the company's short-term sales, growth, and profit needs by giving customers what they want. However, satisfying consumers' immediate needs and desires doesn't always serve the future best interests of either customers or the business.

For example, McDonald's early decisions to market tasty but fat- and salt-laden fast foods created immediate customer satisfaction and sales and profits for the company. However, critics asserted that McDonald's and other fast-food chains contributed to a longer-term obesity epidemic, damaging consumer health and burdening the health system. In turn, many consumers began looking for healthier eating options, causing a slump in the fast-food industry. Beyond issues of ethical behavior and social welfare, McDonald's was also criticized for the sizeable environmental footprint of its vast global operations, everything from wasteful packaging and solid waste creation to inefficient energy use in its stores. Thus, McDonald's strategy was not sustainable in terms of either consumer or company benefit.

Whereas the *societal marketing concept* identified in Figure 20.1 considers the future welfare of consumers and the *strategic planning concept* considers future company needs, the *sustainable marketing concept* considers both. Sustainable marketing calls for socially and environmentally responsible actions that meet both the immediate and future needs of customers and the company.[2]

For example, McDonald's has responded with a more sustainable "Plan to Win" strategy of diversifying into salads, fruits, grilled chicken, low-fat milk, and other healthy fare. The company also launched a major multifaceted education campaign—called "It's what I eat and what I do … I'm lovin' it"—to help consumers better understand the keys to living balanced, active lifestyles.

Additionally, McDonald's also has a list of "Commitments to Offer Improved Nutrition Choices," including a continuing commitment to children's well-being, expanded and improved nutritionally balanced menu choices, and increased consumer and employee access to nutrition information. Some 80 percent of the items in its menu fall into its "favorites under 400 calories" category.

The "Plan to Win" strategy also addresses environmental issues. For example, it calls for food-supply sustainability, reduced and environmentally sustainable packaging, reusing and recycling, and more responsible store designs. McDonald's has even developed an environmental scorecard that rates its suppliers' performances in areas such as water use, energy use, and solid waste management.

❯ Besides making its packaging more environmentally friendly, McDonald's also changed its menu to include salad and grilled chicken, to promote healthier eating.

McDonald's more sustainable strategy is benefiting the company as well as its customers. Since announcing its "Plan to Win" strategy, McDonald's sales have increased by more than 60 percent and profits have nearly tripled. Thus, McDonald's is well positioned for a sustainably profitable future.[3]

Truly sustainable marketing requires a smooth-functioning marketing system in which consumers, companies, policymakers, and others work together to ensure socially responsible and ethical marketing actions. **Real Marketing 20.1** documents the key issues that are likely to dominate corporate social responsibility in China.

Unfortunately, the marketing system doesn't always work smoothly. The following sections examine several sustainability questions: What are the most frequent social criticisms of marketing? What steps have private citizens taken to curb marketing ills? What steps have legislators and government agencies taken to promote sustainable marketing? What steps have enlightened companies taken to carry out socially responsible and ethical marketing that creates sustainable value for both individual customers and society as a whole?

Social Criticisms of Marketing

Marketing receives much criticism. Some of this criticism is justified; much is not. Social critics claim that certain marketing practices hurt individual consumers, society as a whole, and other business firms.

Marketing's Impact on Individual Consumers

Consumers have many concerns about how well the marketing system serves their interests. They hold mixed or even slightly unfavorable attitudes toward marketing practices. Consumer advocates, government agencies, and other critics have accused marketing of harming consumers through high prices, deceptive practices, high-pressure selling, shoddy or unsafe products, planned obsolescence, and poor service to disadvantaged consumers (see **Figure 20.2**).

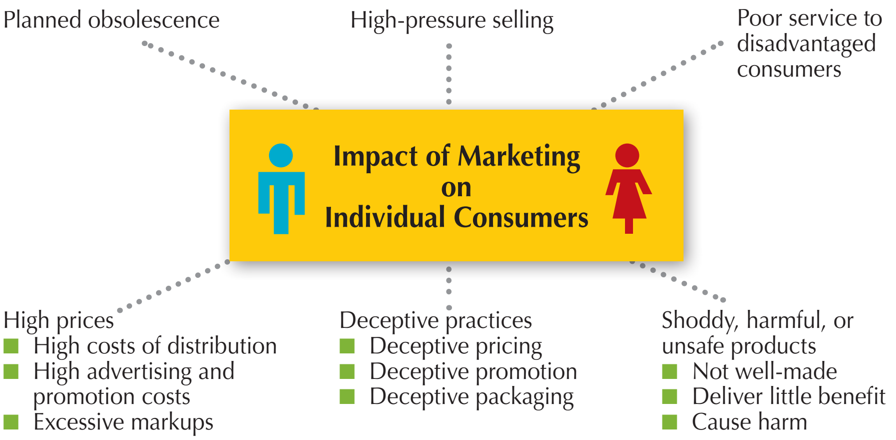

FIGURE 20.2
Impact of marketing on individual consumers

High Prices

Many critics charge that the marketing system causes prices to be higher than they would be under more "sensible" systems. They point to three factors—*high costs of distribution*, *high advertising and promotion costs*, and *excessive markups*.

High Costs of Distribution

A long-standing charge is that channel intermediaries mark up prices beyond the value of their services. Critics charge that there are too many intermediaries, that intermediaries are inefficient, or that they provide unnecessary or duplicate services. As a result, distribution costs too much, and consumers pay for these excessive costs in the form of higher prices. How do resellers answer these charges? They argue that intermediaries do work that would otherwise have to be done by manufacturers or consumers. Markups reflect services that consumers themselves want—more convenience, larger stores and assortments, more service, longer store hours, return privileges, and others. In fact, they argue, where retail competition is so intense, margins are actually quite low. If some resellers try to charge too much relative to the value they add, other resellers will step in with lower prices. Low-price stores and other discounters pressure their competitors to operate efficiently and keep their prices down.

Real Marketing 20.1

Corporate Social Responsibility: Development and Trends in China

A joint online study on the development and trends in corporate social responsibility (CSR) in China conducted by CSR Asia and the CSR Center of the Embassy of Sweden has revealed several interesting insights.

The study found that although 78 percent of respondents believe that CSR has been effective in addressing social and environmental issues in China, more than 8 in 10 (82 percent) are either neutral or disappointed about the state of CSR development there. More can be done to improve the state of CSR in China.

The CSR issue that is raised as critical for companies in China to address is economic performance. This includes financial performance as well as employment and impacts on the local economic development, with over 3 in 5 respondents indicating so. The second most-raised CSR issue is environmental impact (47 percent). The use of resources, pollution caused, impact on climate change, and biodiversity are matters that companies in China should look into. The third most critical CSR issue is workplace matters. Some 44 percent of respondents feel that companies operating in China should look into health and safety of its employees as well as fair compensation and working time, and offer training opportunities.

Across China, there are differences in perception regarding the knowledge of and performance on CSR. The first-tier cities of Beijing, Shanghai, and Guangzhou, as well as the Eastern China and Southern China regions are ranked as the areas in which CSR knowledge and performance are the most advanced in the country. CSR is generally perceived to be better developed in locations that paved the way when China began its opening-up policy in the 1980s.

Several reasons account for the geographical heterogeneity in CSR performance. First, many domestic and international companies are headquartered in first-tier cities. As head offices tend to be the primary driver in the development and execution of CSR policies, awareness of CSR activities tend to be higher. Further, CSR professional networks are also more active in such cities, driving higher levels of awareness particularly among the local business community.

Second, there are many manufacturers based around the Pearl River Delta and Yangtze River Delta in the eastern and southern regions. As they supply to overseas markets, their international clients demand that they satisfy CSR requirements. Thus, CSR practices tend to be implemented.

Third, economic development is more advanced in first-tier cities and the Eastern and Southern China regions, giving the companies in these cities and regions opportunities to engage experienced CSR professionals and funds to implement CSR activities.

❯ Environmental performance will increasingly be part of a company's reputation and brand.

As many had expected, respondents believe that larger companies tend to be better aware of and engage in CSR activities than small and medium enterprises (SMEs). Almost 4 in 5 (76 percent) perceive that SMEs lag behind their larger counterparts with respect to CSR knowledge and performance. Respondents think that large companies fare better because the public have higher expectations of them to do their part in CSR, they have more access to financial and human resources, and they face more governmental pressure to engage in CSR.

What are the obstacles that stop companies from engaging in CSR initiatives? The main reason is insufficient monitoring of compliance. If Chinese companies think they can get away without doing CSR activities, they will. CSR is still viewed as a "cost" that cuts into profitability. Hence, respondents feel that the three drivers for CSR development are the government (76 percent), international buyers with CSR requirements (46 percent), and the media (36 percent).

Among companies that engage in CSR activities, respondents feel that the best addressed ones are economic in nature. The environmental aspect of CSR, which is the second most concerned, is felt to be dismally addressed by businesses in China.

While companies in China still have a long ways to go in adopting CSR programs, respondents are optimistic that CSR knowledge, implementation, and communication will grow dramatically in the next decade. They also feel that differences between CSR developments in different regions of China will also narrow with time.

Source

A Study on Corporate Social Responsibility Development and Trends in China, CSR Asia (2015).

Marketing is also accused of pushing up prices to finance heavy advertising and sales promotion. For example, a heavily promoted brand sells for much more than a virtually identical store-branded product. Critics charge that much of the packaging and promotion adds only psychological value to the product rather than functional value.

Marketers respond that advertising adds to product costs. But it also adds value by informing potential buyers of the availability and merits of a brand. Brand name products may cost more, but branding gives buyers assurances of consistent quality. Moreover, consumers can usually buy functional versions of products at lower prices. However, they *want* and are *willing* to pay more for products that also provide psychological benefits—that make them feel wealthy, attractive, or special.

› Promotional costs – Is there a difference between brands like Panadol and generic paracetamol? Critics charge that promotion adds only psychological value to the product rather than functional value.

Critics also charge that some companies mark up goods excessively. They point to the drug industry, where a pill costing five cents to make may cost the consumer $2 to buy. They point to the pricing tactics of funeral homes that prey on the confused emotions of bereaved relatives and to the high charges for auto repair and other services.

Marketers respond that most businesses try to deal fairly with consumers because they want to build customer relationships and repeat business. Most consumer abuses are unintentional. When shady marketers take advantage of consumers, they should be reported to consumer protection associations. Marketers also respond that consumers often don't understand the reasons for high markups. For example, pharmaceutical markups must cover the costs of purchasing, promoting, and distributing existing medicines plus the high research and development costs of formulating and testing new medicines. As pharmaceuticals company GlaxoSmithKline states in its ads, "Today's medicines finance tomorrow's miracles."

Deceptive Practices

Marketers are sometimes accused of deceptive practices that lead consumers to believe they will get more value than they actually do. Deceptive practices fall into three groups: pricing, promotion, and packaging. *Deceptive pricing* includes practices such as falsely advertising "factory" or "wholesale" prices or a large price reduction from a phony high retail list price. *Deceptive promotion* includes practices such as misrepresenting the product's features or performance or luring the customers to the store for a bargain that is out of stock. *Deceptive packaging* includes exaggerating package contents through subtle design, using misleading labeling, or describing sizes in misleading terms.

The toughest problem is defining what is "deceptive." For instance, an advertiser's claim that its chewing gum will "rock your world," isn't intended to be taken literally. Instead, the advertiser might claim that it is "puffery"—innocent exaggeration for effect. Advertising puffery and alluring imagery are bound to occur—and may even be desirable: "There is hardly a company that would not go down in ruin if it refused to provide fluff, because nobody will buy pure functionality … Worse, it denies … people's honest needs and values. Without distortion, embellishment, and elaboration, life would be drab, dull, anguished, and at its existential worst."[4]

However, others claim that puffery and alluring imagery can harm consumers in subtle ways. MasterCard once ran a series of commercials that paint pictures of consumers fulfilling their priceless dreams despite the costs. Similarly, Visa invites consumers to "Enjoy life's opportunities." Both suggest that your credit card can make it happen. But some critics charge that such imagery by credit card companies encourage a spend-now-pay-later attitude that causes many consumers to overuse their cards.

Marketers argue that most companies avoid deceptive practices because such practices harm their business in the long run. Profitable customer relationships are built upon a foundation of value and trust. If consumers do not get what they expect, they will switch to more reliable products. In addition, consumers usually protect themselves from deception. Most consumers recognize a marketer's selling intent and are careful when they buy, sometimes to the point of not believing completely true product claims.

High-Pressure Selling

Salespeople are sometimes accused of high-pressure selling that persuades people to buy goods they had no thought of buying. It is often said that insurance, time share facilities, and used cars are *sold*, not *bought*. Salespeople are trained to deliver smooth, canned talks to entice purchase. They sell hard because sales contests promise big prizes to those who sell the most.

But in most cases, marketers have little to gain from high-pressure selling. Such tactics may work in one-time selling situations for short-term gain. However, most selling involves building long-term relationships with valued customers. High-pressure or deceptive selling can do serious damage to such relationships. For example, imagine a Procter & Gamble account manager trying to pressure a Watsons buyer, or a Lenovo salesperson trying to browbeat a GE information technology manager. It simply wouldn't work.

Shoddy, Harmful, or Unsafe Products

Another criticism concerns poor product quality or function. One complaint is that, too often, products are not made well and services are not performed well. A second complaint is that many products deliver little benefit, or that they might even be harmful.

Consider the obesity problem. Are fast-food chains partly to blame for overweight children? What should responsible food companies do about it? As with most social responsibility issues, there are no easy answers. McDonald's and Subway have worked to improve their fares and make their menu and customers healthier. However, Hardee's introduced a 1,410-calorie Monster Thickburger. Is Hardee's being socially irresponsible? Or is it simply serving customers choices they want?

› **The obesity debate** – Is Hardee's being socially irresponsible or simply practicing good marketing by giving customers a big juicy burger that clearly pings their taste buds? Judging by the nutrition calculator at its Web site, the company certainly isn't hiding the nutritional facts.

Another complaint concerns product safety. Product safety has been a problem for several reasons, including company indifference, increased product complexity, and poor quality control. For example, Mattel withdrew 1.5 million made-in-China toys worldwide which were reportedly coated in toxic lead paint. The toys included popular characters like Big Bird and Elmo from the hit TV series, *Sesame Street*. The incident was one of a host of product safety scares to have involved Chinese contract manufacturers. Other tainted Chinese-made products involved milk powder, toothpaste, pet food, and seafood.[5]

After a spate of food scares, food safety is paramount in China.

China has had a slew of food safety crimes. From tainted pork and toxic milk to dyed buns, melons laden with chemicals, and other dodgy food, tainted foodstuff have made consumers ill. Nearly 300,000 children fell ill and four died after manufacturers of powdered milk laced it with melamine, an industrial chemical, to boost protein readings. Among the companies embroiled in this crisis were Mengniu and Yili. Sales of milk-based candies such as White Rabbit were also affected. In the pork industry, pig farms were closed after an illegal drug was reportedly used to produce lean meat. The Chinese government has since instituted tough measures. Food safety crimes that result in deaths will earn manufacturers a death sentence. Government officials who take bribes to shield people who commit food safety violations will also be severely punished.[6]

Food scares such as melamine-tainted milk products in China resulted in illnesses and deaths among children.

However, most manufacturers *want* to produce quality goods. The way a company deals with product quality and safety problems can damage or help its reputation. Companies selling poor-quality or unsafe products risk damaging conflicts with consumer groups and regulators. Moreover, unsafe products can result in product liability suits and large awards for damages.

More fundamentally, consumers who are unhappy with a firm's products may avoid future purchases and talk other consumers into doing the same. Similarly, contract manufacturers may switch vendors. Thus, quality missteps can have severe consequences. Today's marketers know that customer-driven quality results in customer value and satisfaction, which in turn creates profitable customer relationships.

Planned Obsolescence

Critics have charged that some companies practice *planned obsolescence*, causing their products to become obsolete before they actually should need replacement. They accuse some producers of using materials and components that will break, wear, or rust sooner than they should. And if the products themselves don't wear out fast enough, other companies are charged with *perceived obsolescence*—continually changing consumer concepts of acceptable styles to encourage more and earlier buying. An obvious example is constantly changing clothing fashions.

Still others are accused of introducing planned streams of new products that make older models obsolete. Critics claim that this occurs in the consumer electronics and computer industries. For example, early iPods had unremovable batteries that failed in about 18 months, so that they had to be replaced. It wasn't until unhappy owners filed legal action that Apple started offering replacement batteries.

Marketers respond that consumers *like* styles changes; they get tired of the old goods and want a new look in fashion. Or they *want* the latest high-tech innovations, even if older models still work. No one has to buy the new product, and if too few people like it, it will simply fail. Finally, most companies do not design their products to break down earlier because they do not want to lose customers to other brands. Instead, they seek constant improvement to ensure that products will consistently meet or exceed customer expectations. Much of the so-called planned obsolescence is the working of the competitive and technological forces in a free society—forces that lead to ever-improving goods and services.

› Planned obsolescence – Many consumers have a drawer full of yesterday's hottest technological gadgets that have become obsolete even though they are still functioning.

Poor Service to Disadvantaged Consumers

Finally, the marketing system has been accused of serving disadvantaged consumers poorly. For example, some critics claim that the urban poor often have to shop in smaller stores that carry inferior goods and charge higher prices.

Marketing's Impact on Society as a Whole

The marketing system has been accused of adding to several "evils" in society at large (see **Figure 20.3**).

FIGURE 20.3
Impact of marketing on society as a whole

False Wants and Too Much Materialism

Critics have charged that the marketing system urges too much interest in material possessions. People are judged by what they *own* rather than by who they *are*. Reflecting this drive for wealth and possessions are such catchphrases as "greed is good" and "shop till you drop." As Asian economies develop, newly affluent and face-conscious consumers may be particularly susceptible to marketing efforts that emphasize material acquisitions and ownership.

The critics do not view this interest in material things as a natural state of mind but as a matter of false wants created by marketing. Businesses stimulate people's desires for goods by using the mass media to create materialistic models of the good life. Thus, marketing is seen as creating false wants that benefit industries more than they benefit consumers.

However, these criticisms overstate the power of business to create needs. People have strong defenses against advertising and other marketing tools. Marketers are most effective when they appeal to existing wants rather than when they attempt to create new ones. Further, people seek information when making important purchases and often do not rely on single sources. Even minor purchases that may be affected by advertising messages lead to repeat purchases only if the product delivers the promised customer value. Finally, the high failure rate of new products shows that companies are not able to control demand.

On a deeper level, our wants and values are influenced not only by marketers but also by family, peer groups, religion, cultural background, and education. If consumers are highly materialistic, these values arose out of basic socialization processes that go much deeper than business and mass media could produce alone.

Too Few Social Goods

Business has been accused of overselling private goods at the expense of public goods. As private goods increase, they require more public services that are usually not forthcoming. For example, an increase in automobile ownership (private good) requires more highways, traffic control, parking spaces, and police services (public goods). The overselling of private goods results in "social costs." For cars, the social costs include traffic congestion, air pollution, fuel shortages, and deaths and injuries from car accidents.

A way must be found to restore balance between private and public goods. One option is to make producers bear the full social costs of their operations. The government could require that automobile manufacturers build cars with even more safety features, more efficient engines, and better pollution-control systems. Automakers would then raise their prices to cover extra costs. If buyers found the price of some cars too high, however, the producers of these cars would disappear. Demand would then move to those producers that could support the sum of the private and social costs.

A second option is to make consumers pay the social costs. For example, many cities around the world are starting to charge "congestion tolls" in an effort to reduce traffic congestion. To unclog its streets, Singapore has an Electronic Road Pricing (ERP) system that automatically deducts toll from prepaid cards placed in readers installed in all cars. Tolls charged are highest during peak hours and in the central city areas. Prospective car purchasers also need to bid for a Certificate of Entitlement—the right to buy a new car and drive it for 10 years.

› Balancing private and public goods – In response to traffic congestion, Singapore has an electronic road pricing system where tolls are automatically deducted from prepaid cards placed in readers installed in all cars.

Cultural Pollution

Critics charge the marketing system with creating *cultural pollution.* Our senses are being constantly assaulted by marketing and advertising. Commercials interrupt serious programs; pages of ads obscure magazines; billboards mar beautiful scenery; spam fills our email boxes; flashing display ads intrude on a user's mobile and laptop screens. These interruptions continually pollute people's minds with messages of materialism, sex, power, or status.

Marketers answer the charges of "commercial noise" with these arguments: First, they hope that their ads reach primarily the target audience. But because of mass-communication channels, some ads are bound to reach people who have no interest in the product and are therefore bored or annoyed. People who buy magazines they like or who opt in to email, social media, or mobile marketing programs rarely complain about the ads because they involve products of interest.

Second, because of ads, many television, radio, online, and social media sites are free to users. Many people think commercials are a small price to pay for these benefits. Finally, today's consumers have alternatives. For example, they can zip and zap TV commercials or avoid them altogether on many cable or satellite channels. Thus, to hold consumer attention, advertisers are making their ads more entertaining and informative.

Marketing's Impact on Other Businesses

Critics also charge that a company's marketing practices can harm other companies and reduce competition. Three problems are involved: acquisitions of competitors, marketing practices that create barriers to entry, and unfair competitive marketing practices.

- *Acquisition of competitors*. Critics claim that firms are harmed and competition reduced when companies expand by acquiring competitors rather than by developing their own new products. The large number of acquisitions and rapid pace of industry consolidation over the past decades have caused concern that vigorous young competitors will be absorbed and that competition will be reduced. In many industries—retailing, entertainment, financial services, utilities, transportation, automobiles, telecommunications, health care—the number of major competitors is shrinking.
- *Acquisition is a complex subject*. Acquisitions can sometimes be good for society. The acquiring company may gain economies of scale that lead to lower costs and lower prices. A well-managed company may take over a poorly managed company and improve its efficiency. A company that was not very competitive might become more competitive after the acquisition. Chinese car manufacturer Geely acquired Volvo from Ford. Despite Volvo's sterling safety and reliability record, it has not been profitable. Geely wants to turn this around. But acquisitions can also be harmful and, therefore, are closely regulated by some governments.
- *Barriers to entry*. Large marketing companies can use patents and heavy promotion spending, and they can tie up with suppliers or dealers to keep out or drive out competitors. Some barriers are the natural result of the economic advantages of doing business on a large scale.
- *Unfair practices*. Some firms use unfair competitive marketing practices with the intention of hurting or destroying other firms. They may set their prices below cost, threaten to cut off business with suppliers, or discourage the buying of a competitor's products. Laws in various countries work to prevent such predatory competition. It is difficult, however, to prove that the intent or action was really predatory.

❯ After not turning in a profit under Ford's management, Volvo was acquired by Chinese car manufacturer Geely who hopes to turn it around.

Wal-Mart has been accused of using predatory pricing in selected market areas to drive smaller retailers out of business. However, while critics charge that Wal-Mart's actions have been predatory, others question whether this is unfair or healthy competition between a more efficient company and less efficient ones.[7]

Consumer Actions to Promote Sustainable Marketing

Sustainable marketing calls for more responsible actions by both businesses and consumers. Because some people view business as the cause of many economic and social ills, grassroots movements have arisen from time to time to keep business in line. The two major movements have been *consumerism* and *environmentalism*.

Consumerism

Consumerism
An organized movement of citizens and government agencies to improve the rights and power of buyers in relation to sellers.

Consumerism is an organized movement of citizens and government agencies to improve the rights and power of buyers in relation to sellers. Traditional *sellers' rights* include:

- The right to introduce any product in any size and style, provided it is not hazardous to personal health or safety; or, if it is, to include proper warnings and controls.
- The right to charge any price for the product, provided no discrimination exists among similar kinds of buyers.
- The right to spend any amount to promote the product, provided it is not defined as unfair competition.
- The right to use any product message, provided it is not misleading or dishonest in content or execution.
- The right to use any buying incentive programs, provided they are not unfair or misleading.

Traditional *buyers' rights* include:

- The right not to buy a product that is offered for sale.
- The right to expect the product to be safe.
- The right to expect the product to perform as claimed.

❯ Consumer desire for more information led to package labels with useful facts, from ingredients and nutrition facts to recycling and country of origin information.

Comparing these rights, many believe that the balance of power lies on the seller's side. True, the buyer can refuse to buy. But critics feel that the buyer has too little information, education, and protection to make wise decisions when facing sophisticated sellers. Consumer advocates call for the following additional consumer rights:

- The right to be well informed about important aspects of the product.
- The right to be protected against questionable products and marketing practices.
- The right to influence products and marketing practices in ways that will improve the "quality of life."
- The right to consume now in a way that will preserve the world for future generations of consumers.

❯ Consumers have the right to be kept informed about and protected from questionable products and marketing practices.

Each proposed right has led to more specific proposals by consumerists. The right to be informed includes the right to know the true interest on a loan (truth in lending), the true cost per unit of a brand (unit pricing), the ingredients in a product (ingredient labeling), the nutritional value of foods (nutritional labeling), product freshness (open dating), and the true benefits of a product (truth in advertising). Proposals related to consumer protection include strengthening consumer rights in cases of business fraud, requiring greater product safety, ensuring information privacy, and giving more power to government agencies. Proposals relating to quality of life include controlling the ingredients that go into certain products and packaging, reducing the level of advertising "noise," and putting consumer representatives on company boards to protect consumer interests.

Sustainable marketing is up to consumers as well as businesses and governments. Consumers have not only the *right* but also the *responsibility* to protect themselves instead of leaving this function to someone else. Consumers who believe they got a bad deal have several remedies available, including contacting the company or the media; contacting local consumer agencies; and going to small-claims courts. Consumers should also make good consumption choices, rewarding companies that act responsibly while punishing those that don't.

Environmentalism

Whereas consumerists consider whether the marketing system is efficiently serving consumer wants, environmentalists are concerned with marketing's effects on the environment and with the costs of serving consumer needs and wants. **Environmentalism** is an organized movement of concerned citizens, businesses, and government agencies to protect and improve people's living environment.

Environmentalism
An organized movement of concerned citizens and government agencies to protect and improve people's living environment.

Environmentalists are not against marketing and consumption; they simply want people and organizations to operate with more care for the environment. The marketing system's goal, they assert, should not be to maximize consumption, consumer choice, or consumer satisfaction, but rather to maximize life quality. And "life quality" means not only the quantity and quality of consumer goods and services, but also the quality of the environment. Environmentalists want environmental costs included in both producer and consumer decision making.

Companies are now accepting more responsibility for protecting the environment. They are shifting from protest to prevention, and from regulation to responsibility.

Environmental sustainability
A management approach that involves developing strategies that both sustain the environment and produce profits for the company.

More companies are adopting policies of **environmental sustainability**. Simply put, environmental sustainability is about generating profits while helping to save the planet. Sustainability is a crucial but difficult societal goal. **Real Marketing 20.2** gives insights into Banyan Tree's growth in sustainable tourism.

Some companies have responded to consumer environmental concerns by doing only what is required to avert new regulations or to keep environmentalists quiet. Enlightened companies, however, are taking action not because someone is forcing them to, or to reap short-run profits, but because it is the right thing to do—for both the company and for the planet's environmental future.

Figure 20.4 shows a grid that companies can use to gauge their progress toward environmental sustainability. At the most basic level, a company can practice *pollution prevention*. This involves more than pollution control—cleaning up waste after it has been created. Pollution prevention means eliminating or minimizing waste before it is created. Companies emphasizing prevention have responded with "green marketing" programs—developing ecologically safer products, recyclable and biodegradable packaging, better pollution controls, and more energy-efficient operations.

For example, the South Korean government encourages its citizens to use "green credit cards" to buy eco-friendly products or to live green in ways like taking public transport. Consumers get credits that can be redeemed for cash or used to lower utility bills.[8]

FIGURE 20.4
The Environmental Sustainability Portfolio

Sources: Stuart L. Hart, "Innovation, Creative Destruction, and Sustainability," *Research Technology Management*, September–October 2005, pp. 21–27.

	Today: Greening	Tomorrow: Beyond Greening
Internal	**Pollution prevention** Eliminating or reducing waste before it is created	**New clean technology** Developing new sets of environmental skills and capabilities
External	**Product stewardship** Minimizing environmental impact throughout the entire product life cycle	**Sustainability vision** Creating a strategic framework for future sustainability

At the next level, companies can practice *product stewardship*—minimizing not just pollution from production but all environmental impacts throughout the full product life cycle, and all the while reducing costs. Many companies are adopting *design for environment (DFE)* practices, which involve thinking ahead to design products that are easier to recover, reuse, or recycle. DFE not only helps to sustain the environment, but can also be highly profitable for the company.

For example, more than a decade ago, IBM started a business—IBM Global Asset Recovery Services—designed to reuse and recycle parts from its mainframe computers returned from lease. In a year, IBM processed more than 19 million kilograms of end-of-life products and product waste worldwide, stripping down old equipment to recover chips and valuable metals. It has since process more than 446 million kilograms of machines, parts, and material. IBM Global Asset Recovery Services finds uses for more than 99 percent of what it takes in, sending less than 1 percent to landfills and incineration facilities. What started out as an environmental effort has grown into a multi-billion dollar IBM business that profitably recycles electronic equipment worldwide.[9]

Today's greening activities focus on improving what companies already do to protect the environment. The "beyond greening" activities identified in Figure 20.4 look to the future. First, internally, companies can plan for *new clean technology*. Many organizations that have made good sustainability headway are still limited by existing technologies. To create fully sustainable strategies, they will need to develop innovative new technologies. Take Panasonic for example:

Panasonic – Electronics giant Panasonic aims to be the best green innovation company in its industry by 2018. Its eco-products account for 66 percent of sales in 2011. In Singapore, such eco-products account for 80 to 90 percent of sales. This is attributed to a mature market where consumers are concerned with energy efficiency. Panasonic is focusing on providing comprehensive solutions that can contribute towards a greener society. Its environmentally friendly products use a sensor that detects room conditions and automatically optimizes performance by adjusting output, making them more energy- and water-efficient as well as longer lasting. Panasonic will also build eco-ideas factories in Asia. These factories will meet the company's stringent in-house manufacturing regulations for recycling of water, chemicals, and waste, without compromising on quality. Already, four such factories have been built in Indonesia, Singapore, Malaysia, and Thailand.[10]

› In its quest to be environmentally friendly, Panasonic is building eco-ideas factories in Asia.

Finally, companies can develop a *sustainability vision*, which serves as a guide to the future. It shows how the company's products and services, processes, and policies must evolve and what new technologies must be developed to get there. This vision of sustainability provides a framework for pollution control, product stewardship, and environmental technology.

Most companies today focus on the upper-left quadrant of the grid in Figure 20.4, investing most heavily in pollution prevention. Some forward-looking companies practice product stewardship and are developing new environmental technologies. Few companies have well-defined sustainability visions. However, emphasizing only one or a few quadrants in the environmental sustainability grid can be shortsighted. Investing only in the bottom half of the grid puts a company in a good position today but leaves it vulnerable in the future. In contrast, a heavy emphasis on the top half suggests that a company has good environmental vision but lacks the skills needed to implement it. Thus, companies should work at developing all four dimensions of environmental sustainability.

Unilever does just that. For the last several years, it has been named one of the most sustainable corporations in the world:

› As part of its Sustainable Living Plan, Unilever is working with its more than 2 billion customers worldwide to improve the social and environmental impact of its products in use.

Unilever – Its Sustainable Living Plan has multiple programs to manage the environmental impacts of its own operations. "The world faces enormous environmental pressures," says the company. "Our aim is to make our activities more sustainable and also encourage our customers, suppliers, and others to do the same." On the "upstream side," more than half of Unilever's raw materials come from agriculture, so the company helps suppliers develop sustainable farming practices that meet its own high expectations for environmental and social impacts. On the "downstream side"—when consumers use its products—Unilever reduces the environmental impacts of its products during use through innovative product development and consumer education. For example, almost one-third of households worldwide use Unilever laundry products to do their washing—approximately 125 billion washes every year. So the company launched the Cleaner Planet Plan project, which aims to reduce the impact of laundry

Real Marketing 20.2

Driving Growth in Sustainable Tourism:
The Banyan Tree story

Established in 1994 by former journalist Kwon Ping Ho and his wife Claire Chiang, the Banyan Tree has grown from humble beginnings to a highly respected brand in the hospitality industry, and a destination treasured by travelers the world over.

The group started out with a resort built on an abandoned and they subsequently discovered highly-polluted tin mine on the Thai resort island of Phuket. From such unlikely beginnings, and after an extensive clean up, sprang an environmentally-conscious luxury beach resort, which in turn has spawned a chain of spas and hotels that today spans from the bustling heart of downtown Shanghai to the coast of Mexico.

Today, Banyan Tree operates in more than 30 resorts and hotels and a chain of luxury spas in 28 countries. And it is looking to expand further, with a particular focus on new markets in the Americas and China. In 2012, Abid Butt took over from Banyan Tree founders as the group's first professional CEO. Abid is a veteran of the hospitality industry, starting out with the Sheraton group, working on the frontline managing hotels around the world, before joining the Banyan Tree in the late 1990s. Based on a talk he gave at the National University of Singapore's (NUS) Business School, these are the key takeaways:

If Innovation Made You Great, Don't Let Success Stop You

Banyan Tree achieved its growth in large part due to innovations with water features, amazing service experiences and an obsession with bringing out local uniqueness at each of its properties. As the first CEO taking over from the company founders, Abid clearly sees that his role is to continue to support ongoing innovation as a way to preserve the founders' legacy.

Successful growth leaders find the right balance of innovating and starting new things, with driving constancy and preserving what has worked in the past.

Stay True to What Your Customers Most Love

The pressure to grow also creates pressure to adapt to new markets and customer expectations. This is a good thing. Growth leaders ensure their business never forgets what loyal customers most love about the brand and their brand experience.

In our own work, we see growth leaders increasingly giving these important stakeholders a voice in defining ways to continue to make the brand great. The really good ones are able to share power and steer their business into the future.

Equip Your Staff with Capabilities Needed to Deliver Branded Experiences

Growth in any service industry depends upon consistently creating experiences that deliver on the company's brand promise. Employees need technical skills to do their job, and good hiring and training practices can address this.

However, more importantly, they have to understand the meaning of the brand and translate this into behavior and decisions made every day. This requires a strong culture that brings the brand to life, and empowers employers to act like owners of the brand. Growth leaders demand high standards of performance and, at the same time, empower their staff to deliver on the brand promise.

When Growing Outside You Celebrate What is Local and Unique

As companies expand into new markets, they face pressure to act quickly and behave in ways that have led to success in other markets. This applies to products, services, channel partners, and even physical design of workspaces. Banyan Tree is an example of a company that starts by taking time to understand what is unique and different in the new market and seeks to integrate this uniqueness in its properties.

This mindset of "go slow to grow fast" is one that we are much more likely to see amongst Asian MNCs than Western MNCs. Global growth leaders find the right balance between driving global standardization and local relevance.

Be Humble about Prior Success

Too often, a track record of success creates arrogance and an inability to adapt for the future. Like other growth leaders, Abid takes a humble attitude about the success of Banyan Tree. This humility is what keeps him and his team looking out and looking ahead. In an evolving business environment, this attitude encourages adaptation.

Abid's view of business planning and detailed business plans as a way to anticipate and rehearse for the future is a perfect example of this attitude. Growth leaders do a great job showing confidence in the future and their plans for it, while also showing humility and openness to adapt their plans.

Abid embodies many of the characteristics of growth leadership. Below are some questions one asks when managing a business:

- What do our most loyal customers love about our brand? How do we preserve this? How can we adapt around this?
- What has contributed to our success in the past? How can we continue this? How must we adapt to be successful in the future?
- What is the promise of our brand in terms of an experience? What are we doing to ensure every employee understands and can act in ways that deliver on this promise?
- What are the critical few things that we must do in a globally standardized way? How do we ensure we do this well? How do we ensure the rest is locally relevant? How can we collaborate across markets to achieve local relevance in a cost-effective manner?

Sources

Adapted from Alison Eyring, Adjunct Associate Professor, Management and Organisation, NUS Business School, and CEO, Organisation Solutions Pte Ltd., "Driving Growth in Sustainable Tourism: The Banyan Tree Story," *Think Business*, 18 February 2015. Partially reproduced with permission of Think Business @ NUS Business School, National University of Singapore (http://thinkbusiness.nus.edu), Copyright NUS Business School.

on the environment by designing sustainable products and manufacturing them efficiently. But up to 70 percent of the total greenhouse gas footprint and 95 percent of the water footprint of Unilever's laundry products occur during consumer use. So the Cleaner Planet Plan also engages consumers directly to educate them on better laundry habits to reduce their environmental impact. Thus, Unilever leads the entire value chain—from suppliers to consumers—in the cause of saving the environment.[11]

Environmentalism creates some special challenges for global marketers. As international trade barriers come down and global markets expand, environmental issues are having an ever-greater impact on international trade. However, environmental policies still vary widely from country to country. Countries such as Denmark, Germany, Japan, and the United States have fully developed environmental policies and high public expectations. But major countries such as China, India, Brazil, and Russia are in only the early stages of developing such policies. Moreover, environmental factors that motivate consumers in one country may have no impact on consumers in another. For example, PVC soft drink bottles cannot be used in Switzerland or Germany. However, they are preferred in France, which has an extensive recycling process for them. Thus, international companies have found it difficult to develop standard environmental practices that work around the world. Instead, they are creating general policies and then translating these policies into tailored programs that meet local regulations and expectations.

Public Actions to Regulate Marketing

Citizen concern about marketing practices will usually lead to public attention and legislative proposals. New bills will be passed. The task is to translate these laws into language that marketing executives understand as they make decisions about competitive relations, products, price, promotion, and channels of distribution. **Figure 20.5** illustrates the major legal issues facing marketing management.

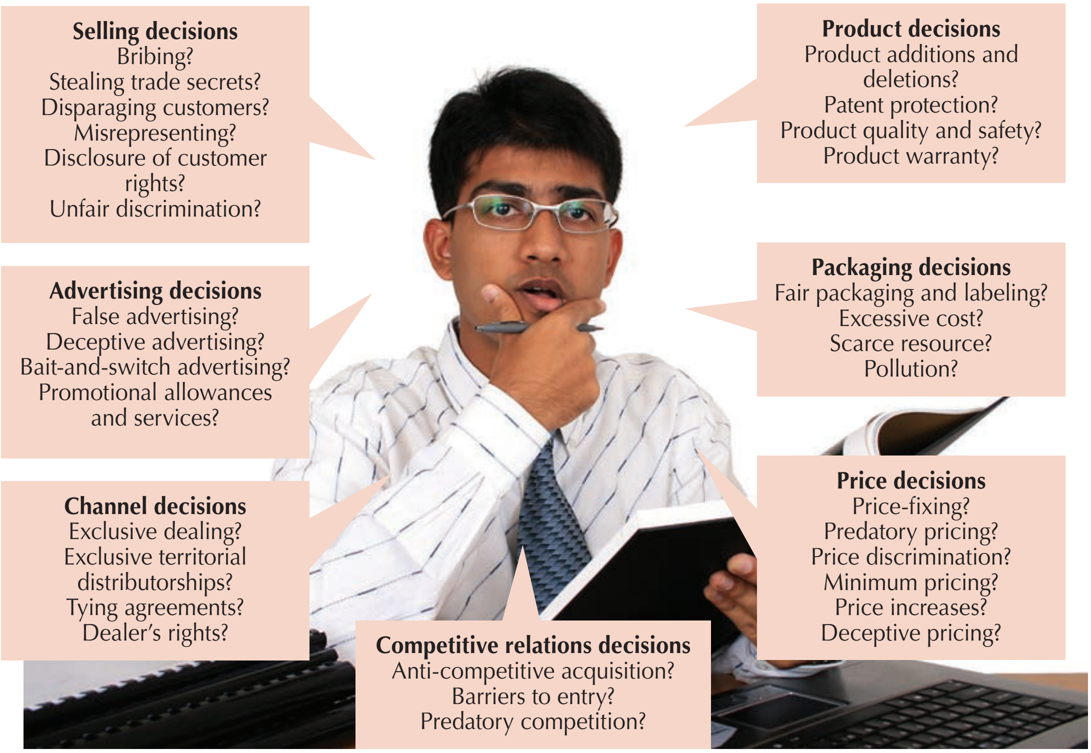

FIGURE 20.5
Major marketing decision areas that may be called into question under the law

Business Actions toward Sustainable Responsible Marketing

Initially, many companies opposed consumerism, environmentalism, and other elements of sustainable marketing. They thought the criticisms were either unfair or unimportant. But by now, many companies have grown to embrace the new consumer rights. They recognize the consumer's right to information and protection. Many of these companies have responded positively to consumerism and environmentalism as a way to create greater customer value and to strengthen customer relationships.

Sustainable Marketing Principles

Under the sustainable marketing concept, a company's marketing should support the best long-run performance of the marketing system. It should be guided by five sustainable marketing principles: *consumer-oriented marketing*, *customer-value marketing*, *innovative marketing*, *sense-of-mission marketing*, and *societal marketing* (see **Figure 20.6**).

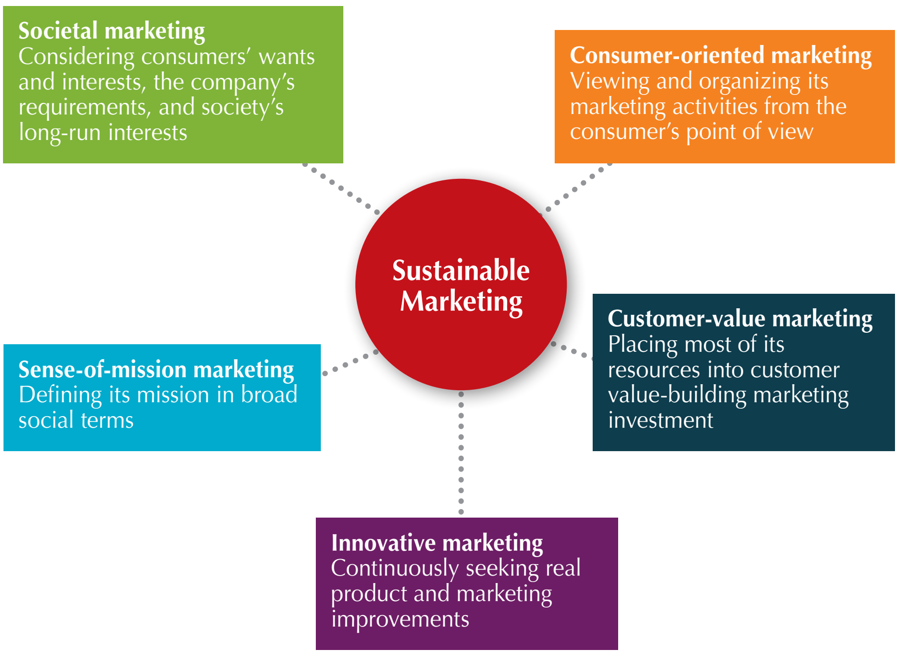

FIGURE 20.6
Principles of sustainable marketing

Consumer-Oriented Marketing

Consumer-oriented marketing means that the company should view and organize its marketing activities from the consumer's point of view. It should work hard to sense, serve, and satisfy the needs of a defined group of customers. All the good marketing companies that we've discussed have this in common: an all-consuming passion for delivering superior value to carefully chosen customers. Only by seeing the world through its customers' eyes can the company build lasting and profitable customer relationships.

Consumer-oriented marketing
A principle of sustainable marketing that holds that the company should view and organize its marketing activities from the consumer's point of view.

Customer-value marketing
A principle of sustainable marketing that holds that a company should put most of its resources into customer value-building marketing investments.

Innovative marketing
A principle of sustainable marketing that requires that a company seek real product and marketing improvements.

Customer-Value Marketing

According to the principle of **customer-value marketing**, the company should put most of its resources into customer value-building marketing investments. Many things marketers do—one-shot sales promotions, cosmetic packaging changes, direct-response advertising—may raise sales in the short run but add less *value* than would actual improvements in the product's quality, features, or convenience. Enlightened marketing calls for building long-run consumer loyalty and relationships by continually improving the value consumers receive from the firm's market offering. By creating value *for* consumers, the company can capture value *from* consumers in return.

Innovative Marketing

The principle of **innovative marketing** requires that the company continuously seeks real product and marketing improvements. The company that overlooks new and better ways to do things will eventually lose customers to another company that has found a better way. An excellent example of an innovative marketer is Nike:

› Innovative marketing – New products, such as the Nike FuelBand and Flyknit Racer, along with its innovative social media marketing efforts, earned Nike the title as *Fast Company's* number one most innovative marketer.

Nike – For 50 years, through innovative marketing, Nike has built the swoosh into one of the world's best known symbol. When sales languished in the late 1990s and new competitors made gains, Nike knew it had to reinvent itself via product and marketing innovation. A hungry Nike has introduced highly successful new products ever since. For example, with the new Nike Flyknit Racer, Nike reinvented the way that shoes are manufactured. The featherweight Flyknit feels more like a sock with a sole. Woven not sewn, the Flyknit is super comfortable and durable, more affordable to make, and more environmentally friendly than traditional sneakers. With these new products and heavy investment in social media, Nike is the world's largest sports apparel company. *Forbes* and *Fast Company* have named Nike as the world's number one most innovative company.[12]

Sense-of-mission marketing
A principle of sustainable marketing that holds that a company should define its mission in broad social terms rather than narrow product terms.

Sense-of-Mission Marketing

Sense-of-mission marketing means that the company should define its mission in broad *social* terms rather than narrow *product* terms. When a company defines a social mission, employees feel better about their work and have a clearer sense of direction. Brands linked with broader missions can serve the best long-run interests of both the brand and consumers. For example, Dove wants to do more than just sell its beauty care products. It's on a mission to discover "real beauty" and to help women be happy just the way they are.

Dove – It all started with a Unilever study which found that only 2 percent of 3,300 women and girls surveyed across 10 countries considered themselves beautiful. Unilever's conclusion: It's time to redefine beauty. So it launched the global Dove campaign for Real Beauty, with ads featuring candid and confident images of real women of all types (not actresses or models) and headlines that made consumers ponder on their perceptions of beauty. This was followed by a study among Asian women. Women in Singapore, Hong Kong, and Japan seemed the least happy with their own bodies. Although Asian women felt that dignity and confidence, kindness, and intelligence are more important than sex appeal and youth in terms of feeling beautiful, they still feel beholden to youth when it comes to looking beautiful. The Asian campaign that followed questioned whether "model" attributes such as youth, slimness, and breast size are required for beauty. The ads include: "Grey? Gorgeous?", which featured Fumi Tsujimoto, 54 years old, Japanese, with a natural head of grey hair, which asked: "Why can't more women feel glad to be grey?". "Single eyelids? Twice as nice?" featured Christine Cheong, a Singaporean, with single eyelids and asked: "When surgery adds an extra eyelid, does it remove your identity?" A later study was conducted among teenage girls. Dove found that 84 percent of teenage girls in Singapore wished they could change their physical appearance. Some 60 percent of them felt bad about themselves because of their looks or weight. With low esteem, the girls skipped school, avoided social occasions, and retreated to their bedrooms. This led Dove to launch the Dove Self-Esteem Fund in Singapore where health care programs are carried out. One such program is Body Talk, where educational workshops are conducted in schools to help teenagers understand and deal with feelings about their physical appearance. The fund also helps acquire the books and resource materials for a library on eating disorders.[13]

❯ Dove launched the Dove Self-Esteem Fund in Singapore as part of its Singapore as part of its larger mission to help women be happy just the way they are. Here, members from an appointed committee explain the scheme to students.

❯ Ben & Jerry's not only sells ice cream, it also donates 7.5 percent of pre-tax profits to support worthy causes.

Some companies define their overall corporate missions in broad societal terms. For example, defined in narrow product terms, the mission of Unilever's Ben & Jerry's unit might be "to sell ice cream." However, Ben & Jerry's states its mission more broadly, as one of "linked prosperity," including product, economic, and social missions. From its beginnings, Ben & Jerry's has championed a host of social and environmental causes, and has donated 7.5 percent of pre-tax profits to support worthy causes. However, having a "double bottom line" of values and profits is not easy. Ben & Jerry's appear to have, at times, focused too much on social issues at the expense of sound business management.

Such experiences have taught the socially responsible business movement some hard lessons. The result is a new generation of activist entrepreneurs—not social activists with big hearts who hate capitalism, but well-trained business managers and company builders with a passion for a cause.

Societal Marketing

Following the principle of **societal marketing**, an enlightened company makes marketing decisions by considering consumers' wants and interests, the company's requirements, and society's long-run interests. The company is aware that neglecting consumer and societal long-run interests is a disservice to consumers and society. Alert companies view societal problems as opportunities.

A societally-oriented marketer wants to design products that are not only pleasing but also beneficial. The difference is shown in **Figure 20.7**. Products can be classified according to their degree of immediate consumer satisfaction and long-run consumer benefit. **Deficient products**, such as bad-tasting and ineffective medicine, have neither immediate appeal nor long-run benefits. **Pleasing products** give high immediate satisfaction but may hurt consumers in the long run. Examples include cigarettes and junk food. **Salutary products** have low appeal but may benefit consumers in the long run; for instance, seat belts and airbags. **Desirable products** give both high immediate satisfaction and high long-run benefits, such as LED light bulb, which provides good lighting while offering long life and energy savings. Toyota's hybrid Prius gives both a quiet ride and fuel efficiency.

Societal marketing
A principle of sustainable marketing that holds that a company should make marketing decisions by considering consumers' wants, the company's requirements, consumers' long-run interests, and society's long-run interests.

Deficient products
Products that have neither immediate appeal nor long-run benefits.

Pleasing products
Products that give high immediate satisfaction but may hurt consumers in the long run.

Salutary products
Products that have low appeal but may benefit consumers in the long run.

Desirable products
Products that give both high immediate satisfaction and high long-run benefits.

Long-run consumer benefit	Immediate satisfaction: Low	Immediate satisfaction: High
High	Salutary products	Desirable products
Low	Deficient products	Pleasing products

FIGURE 20.7
Societal classification of products

Energy-saving light bulbs not only give immediate consumer satisfaction by providing good lighting; they also offer long-run consumer benefit through energy and cost savings.

Companies should try to turn their products into desirable products. The challenge posed by pleasing products is that they sell very well but may end up hurting the consumer. The product opportunity, therefore, is to add long-run benefits without reducing the product's pleasing qualities. The challenge posed by salutary products is to add some pleasing qualities so that they will become more desirable in consumers' minds.

Marketing Ethics

Conscientious marketers face many moral dilemmas. The best thing to do is often unclear. Because not all managers have fine moral sensitivity, companies need to develop *corporate marketing ethics policies*—broad guidelines that everyone in the organization must follow. These policies should cover distributor relations, advertising standards, customer service, pricing, product development, and general ethical standards.

The finest guidelines cannot resolve all the difficult ethical situations the marketer faces. **Table 20.1** lists some difficult ethical situations marketers could face during their careers. If marketers choose immediate sales-producing actions in all these cases, their marketing behavior might well be described as immoral or even amoral. If they refuse to go along with *any* of the actions, they might be ineffective as marketing managers and unhappy because of the constant moral tension. Managers need a set of principles that will help them figure out the moral importance of each situation and decide how far they can go in good conscience.

But *what* principle should guide companies and marketing managers on issues of ethics and social responsibility? One philosophy is that such issues are decided by the free market and legal system. Under

❯ What information should be divulged? What kind of information shouldn't? Companies need to develop corporate marketing ethics policies that everyone in the organization must follow.

◗ TABLE 20.1 Some Morally Difficult Situations in Marketing

1.	You work for a cigarette company. Public policy debates over the past years leave no doubt in your mind that cigarette smoking and cancer are closely linked. Although your company currently runs an “If you don’t smoke, don’t start” promotion campaign, you believe that other company promotions might encourage young (although of legal age) non-smokers to pick up the habit. What would you do?
2.	Your R&D department has changed one of your products slightly. It is not really “new and improved,” but you know that putting this statement on the package and in advertising will increase sales. What would you do?
3.	You have been asked to add a stripped-down model to your line that could be advertised to pull customers into the store. The product won’t be very good, but salespeople will be able to switch buyers up to higher-priced units. You are asked to give the green light for the stripped-down version. What would you do?
4.	You are thinking of hiring a product manager who has just left a competitor’s company. She would be more than happy to tell you all the competitor’s plans for the coming year. What would you do?
5.	One of your top dealers in an important territory has recently had family troubles, and his sales have slipped. It looks like it will take him a while to straighten out his family troubles. Meanwhile you are losing many sales. Legally, on performance grounds, you can terminate the dealer’s franchise and replace him. What would you do?
6.	You have a chance to win a big account that will mean a lot to you and your company. The purchasing agent hints that a “gift” would influence the decision. Your assistant recommends sending a color television set to the buyer’s home. What would you do?
7.	You have heard that a competitor has a new product feature that will make a big difference in sales. The competitor will demonstrate the feature in a private dealer meeting at the annual trade show. You can easily send an observer to this meeting to learn about the new feature. What would you do?
8.	You have to choose among three ad campaigns outlined by your agency. The first (a) is a soft-sell, honest, straight-information campaign. The second (b) uses sex-loaded emotional appeals and exaggerates the product’s benefits. The third (c) involves a noisy, somewhat irritating commercial that is sure to gain audience attention. Pretests show that the campaigns are effective in the following order: c, b, and a. What would you do?
9.	You are interviewing a capable female applicant for a job as salesperson. She is better qualified than the men that you just interviewed. Nevertheless, you know that some of your important customers prefer dealing with men, and you will lose some sales if you hire her. What would you do?

this principle, companies and their managers are not responsible for making moral judgments. Companies can in good conscience do whatever the market and legal systems allow.

A second philosophy puts responsibility not on the system but in the hands of individual companies and managers. This more enlightened philosophy suggests that a company should have a "social conscience." Companies and managers should apply high standards of ethics and morality when making corporate decisions, regardless of "what the system allows."

Each company and marketing manager must work out a philosophy of socially responsible and ethical behavior. Under the societal marketing concept, each manager must look beyond what is legal and develop standards based on personal integrity, corporate conscience, and long-run consumer welfare. Dealing with issues of ethics and social responsibility in an open and forthright way helps to build strong customer relationships based on honesty and trust. Many companies routinely include consumers in the social responsibility process. Consider toy maker Mattel:[14]

❯ When the discovery of lead paint on several of its best-selling products forced Mattel to recall millions of toys worldwide, the company's forthright response helped it maintain customer confidence. Mattel even involved its panel of 400 moms as "brand advisors" to help shape its response.

When lead paint was discovered on several of Mattel's best-selling products, it was forced to make worldwide recalls on millions of toys. Threatening as this was, rather than hesitating or hiding the incident, the company's brand advisors were up to the challenge. Their quick, decisive response helped to maintain consumer confidence in the Mattel brand, even contributing to a 6 percent sales increase over the same period from the year before. Just who were these masterful "brand advisors"? They were the 400 moms with kids aged 3 to 10 who constitute The Playground community, a private online network launched by Mattel's worldwide consumer insights department to "listen to and gain insight from moms' lives and needs." Throughout the crisis, The Playground community members kept in touch with Mattel regarding the product recalls and the company's forthright response plan, even helping to shape the post-recall promotional strategy for one of the affected product lines. Even in times of crisis, "brands that engage in a two-way conversation with their customers create stronger, more trusting relationships," says a Mattel executive.

As with environmentalism, the issue of ethics provides special challenges for international marketers. Business standards and practices vary a great deal from one country to the next. For example, whereas bribes and kickbacks are illegal for U.S. firms, they are standard business practice in many Asian countries. One study found that companies from some nations were much more likely to use bribes when seeking contracts in emerging-market nations. The most flagrant bribe-paying firms were from Russia and China, with Taiwan and South Korea close behind.

The question arises as to whether a company must lower its ethical standards to compete effectively in countries with lower standards. Ideally, companies should make a commitment to a common set of shared standards worldwide.

John Hancock Mutual Life Insurance Company operates successfully in Southeast Asia, an area that by Western standards has widespread questionable business and government practices. Despite warnings from locals that Hancock would have to bend its rules to succeed, the company set out strict guidelines. "We told our people that we had the same ethical standards, same procedures, and same policies in these countries that we have in the U.S., and we do," says Hancock Chairman Stephen Brown. "We just felt that things like payoffs were wrong—and if we had to do business that way, we'd rather not do business." Hancock employees feel good about the consistent level of ethics. "There may be countries where you have to do that kind of thing," says Brown. "We haven't found that country yet, and if we do, we won't do business there."[15]

Many industrial and professional associations have suggested codes of ethics, and many companies are now adopting their own codes. Companies are also developing programs to teach managers about important ethics issues and help them find the proper responses. They hold ethics workshops and seminars and set up ethics committees. Further, some major companies have appointed high-level ethics officers to champion ethics issues and to help resolve ethics problems and concerns facing employees.

Google is a good example. Its official Google Code of Conduct is the mechanism by which the company puts its well-known "Don't be evil" motto into practice. Google employees must earn users' faith and trust by holding themselves to the highest possible standards of ethical business conduct. Google provides its users unbiased access to information, focusing on their needs, and giving them the best products and services that it can. It's also about doing the right thing—following the law, acting honorably, and treating each other with respect. Google requires all its employees to take personal responsibility for practicing both the spirit and letter of the code, and encouraging other employees to do the same. It urges employees to report violations.

Still, written codes and ethics programs do not ensure ethical behavior. Ethics and social responsibility require a total corporate commitment. They must be a component of the overall corporate culture.

› **Marketing Ethics** – Google's Code of Conduct is the mechanism by which the company puts its well-known "Don't be evil" motto into practice.

The Sustainable Company

At the foundation of marketing is the belief that companies that fulfill the needs and wants of customers will thrive. Those that fail to do so or that intentionally or unintentionally harm customers, others in society, or future generations, will decline. Sustainable companies are those that create value for customers through socially, environmentally, and ethically responsible actions.

Sustainable marketing goes beyond caring for the needs and wants of today's customers. It means having concern for tomorrow's customers in assuring the survival and success of the business, shareholders, employees, and the broader world in which they live. Sustainable marketing provides the context in which companies can build profitable customer relationships by creating value *for* customers to capture value *from* customers in return, now and in the future.

Reviewing Objectives and Key Terms

In this chapter, we addressed many of the most important *sustainable marketing* concepts related to marketing's sweeping impact on individual consumers, other businesses, and society as a whole. Sustainable marketing requires socially, environmentally, and ethically responsible actions that bring value not only to current consumers and businesses but also to future generations and society as a whole. Sustainable companies are those that act responsibly to create value for customers to capture value from customers in return—now and in the future.

OBJECTIVE 1 Define sustainable marketing and discuss its importance. (pp. 663–665)

Sustainable marketing calls for meeting the present needs of consumers and businesses while preserving or enhancing the ability of future generations to meet their needs. Whereas the marketing concept recognizes that companies thrive by fulfilling the day-to-day needs of customers, sustainable marketing calls for socially and environmentally responsible actions that meet both the immediate and future needs of customers and the company. Truly sustainable marketing requires a smooth-functioning marketing system in which consumers, companies, policymakers, and others work together to ensure responsible marketing actions.

OBJECTIVE 2 Identify the major social criticisms of marketing. (pp. 665–674)

Marketing's *impact on individual consumer welfare* has been criticized for its high prices, deceptive practices, high-pressure selling, shoddy or unsafe products, planned obsolescence, and poor service to disadvantaged consumers. Marketing's *impact on society* has been criticized for creating false wants and too much materialism, too few social goods, and cultural pollution. Critics have also denounced marketing's *impact on other businesses* for harming competitors and reducing competition through acquisitions, practices that create barriers to entry, and unfair competitive marketing practices. Some of these concerns are justified; some are not.

OBJECTIVE 3 Define consumerism and environmentalism and explain how they affect marketing strategies. (pp. 674–678)

Concerns about the marketing system have led to *citizen action movements*. *Consumerism* is an organized social movement intended to strengthen the rights and power of consumers relative to sellers. Alert marketers view it as an opportunity to serve consumers better by providing more consumer information, education, and protection. *Environmentalism* is an organized social movement seeking to minimize the harm done to the environment and quality of life by marketing practices. The first wave of modern environmentalism was driven by environmental groups and concerned consumers; the second wave was driven by the federal government, which passed laws and regulations governing industrial practices impacting the environment. The first two environmentalism waves are now merging into a third and stronger wave, in which companies are accepting responsibility for doing no environmental harm. Companies now are adopting policies of *environmental sustainability*—developing strategies that both sustain the environment and produce profits for the company. Both consumerism and environmentalism are important components of sustainable marketing.

OBJECTIVE 4 Describe the principles of sustainable marketing. (pp. 679–682)

Many companies originally resisted these social movements and laws, but most now recognize a need for positive consumer information, education, and protection. Under the sustainable marketing concept, a company's marketing should support the best long-run performance of the marketing system. It should be guided by five sustainable marketing principles: *consumer-oriented marketing*, *customer-value marketing*, *innovative marketing*, *sense-of-mission marketing*, and *societal marketing*.

OBJECTIVE 5 Explain the role of ethics in marketing. (pp. 683–685)

Increasingly, companies are responding to the need to provide company policies and guidelines to help their managers deal with questions of *marketing ethics*. Of course, even the best guidelines cannot resolve all the difficult ethical decisions that individuals and firms must make. But there are some principles from which marketers can choose. One principle states that the free market and the legal system should decide such issues. A second and more enlightened principle puts responsibility not on the system but in the hands of individual companies and managers. Each firm and marketing manager must work out a philosophy of socially responsible and ethical behavior. Under the sustainable marketing concept, managers must look beyond what is legal and allowable and develop standards based on personal integrity, corporate conscience, and long-term consumer welfare.

Key Terms

OBJECTIVE 1

Sustainable marketing (p 641)

OBJECTIVE 3

Consumerism (p 652)
Environmentalism (p 653)
Environmental sustainability (p 654)

OBJECTIVE 4

Consumer-oriented marketing (p 659)
Customer-value marketing (p 660)
Innovative marketing (p 660)
Sense-of-mission marketing (p 660)
Societal marketing (p 662)
Deficient products (p 662)
Pleasing products (p 662)
Salutary products (p 662)
Desirable products (p 662)

Discussing the Concepts

1. What is sustainable marketing? Explain how the sustainable marketing concept differs from the marketing concept and the societal marketing concept.
2. Marketing's impact on individual consumers has been criticized. Discuss the issues relevant to this impact.
3. Discuss the types of harmful impact that marketing practices can have on competition and their associated problems.
4. Can an organization focus on both consumerism and environmentalism at the same time? Explain.
5. Describe the five sustainable marketing principles and explain how companies benefit from adhering to them.
6. Good ethics is the cornerstone of sustainable marketing. Explain what this means and discuss how companies practice good ethics.

Applying the Concepts

1. Visit adage.com and click on the "Why it matters" section on the left-hand column. Choose two reports at this site and discuss how they relate to the ethical and social responsibility topics in this chapter.
2. In a small group, discuss each of the morally difficult situations in marketing presented in Table 20.1. Which philosophy is guiding your decision in each situation?
3. Visit adbuster.org. What is the purpose of this Web site? Do you think it is effective with its message?

Focus on Technology

Marketers are hungry for customer information, and the electronic tracking industry is answering the call by gathering consumer Internet behavior data. A recent investigation by the *Wall Street Journal* found that the 50 most popular U.S. Web sites installed more than 3,000 tracking files on the computer used in the study. The total was even higher—4,123 tracking files—for the top 50 sites popular with children and teens. Many sites installed more than 100 tracking tools each during the tests. Tracking tools include files placed on users' computers and on Web sites. You probably know about cookies, small information files that are placed on your computer. Newer technology, such as Web beacons (also known as Web bugs, tracking bugs, pixel tags, and clear GIFs) are invisible graphic files placed on Web sites and in emails that, when combined with cookies, can tell a lot about the user. For example, beacons can tell a marketer if a page has been viewed, for how long, and can even tell if you have read the email that was sent to you. Such tracking has become aggressive to the point where keystrokes can be analyzed for clues about a person, and "flash cookies" can reappear after a user deletes them. Although the data do not identify users by name, data-gathering companies can construct consumer profiles that include demographic, geographic, and lifestyle information. Marketers use this information to target online ads.

1. Critics claim that Internet tracking infringes consumer privacy rights. Should marketers have access to such information? Discuss the advantages and disadvantages of this activity for marketers and consumers. (AACSB: Communication; Ethical Reasoning)
2. Discuss the position of the FTC on this activity. Is it right to track a computer user's online search behavior? (AACSB: Communication; Ethical Reasoning)

Focus on Ethics

Many companies, such as Timberland, take sustainable marketing seriously. Consumers might soon be able to use the Outdoor Industry Association's (OIA) Eco Index to help them identify such companies. The OIA has guided brand manufacturers and retailers, such as Nike, Levi Strauss, Timberland, Target, Patagonia, and many others in the developing of a software tool to measure the eco-impact of their products. A product as simple as a pair of jeans has considerable environmental impact. A pair of Levis jeans moves from cotton grown in Louisiana; to fabric woven in North Carolina; to jeans cut in the Dominican Republic, sewn in Haiti, and finished in Jamaica; to the final product distributed in the store where you purchase them. And that's just for jeans sold in the United States; Levi's are sold all over the world. The Eco Index takes all this into account and more. It factors in other environmental things, such as washing methods, the amount of water used in the life of the jeans, and the disposal of the product. The holdup on the Eco Index, however, is that all the information is self-reported, and manufacturers have to obtain information from their suppliers as well.

1. Learn more about this initiative by visiting the OIA's Web site at www.outdoorindustry.org. If implemented, will this index help marketers who score well on it develop a sustainable competitive advantage? Would you be more willing to purchase a product from a company that scores well on this index? (AACSB: Communication; Use of IT; Reflective Thinking)

2. The Eco Index is an industry-led initiative; all information is self-reported with no proof required. Is there a potential to abuse the system and possibly deceive consumers? Explain.
(AACSB: Communication; Ethical Reasoning; Reflective Thinking)

Marketing & the Economy

Thrift Stores

It makes sense that as unemployment rates rise and incomes weaken, more middle-class shoppers turn to thrift stores in search of bargains. But in recent times, thrift stores have benefited from more than just a new consumer frugality. The negative stigma of shopping at musty, secondhand shops has diminished. For fashionistas everywhere, the line between "thrift" and "vintage" has grown razor thin. Today, people aren't just buying any old rags at thrift stores. They're finding treasures of some top-name brands. Goodwill Industries is taking advantage of this trend. It promotes its wares to hipster trendsetters through fashion shows and apparel blogs and by offering store credit for apparel donations.

Goodwill's overall sales have gone up by about 7 percent in the face of a weaker economy. Other thrift stores report increases of up to 35 percent. But the industry's good fortunes present a unique dilemma. The same forces that are driving thrift sales up are driving donations down. People are keeping their own old stuff longer. And rather than donating old apparel, people are selling it elsewhere for cash. As a result, the two-bag donor is now bringing in only one bag. And the goods that are donated tend to be lower in quality. This unusual dynamic could make it difficult for thrift stores to stock their shelves in the future.

1. In what ways does the thrift store industry present solutions to the common social criticisms of marketing outlined in the textbook?
2. How might the thrift store industry overcome its supply problems in the current environment of more frugal consumers?

Marketing by the Numbers

One element of sustainability is organic farming. But if you've priced organic foods, you know they are more expensive. For example, a dozen conventionally farmed eggs costs consumers $1.50, whereas a dozen organic eggs costs $2.80. Organic farming costs much more than conventional farming, and those costs are passed onto consumers. However, if prices get too high, consumers will not purchase the organic eggs. Suppose that the average fixed costs per year for conventionally farmed eggs are $1 million, but they are twice that amount for organic eggs. Organic farmers' variable costs per dozen are twice as much as well—$1.80. Refer to Appendix 2 to answer the following questions.

1. Most large egg farmers sell eggs directly to retailers. What is the farmer's price per dozen to the retailer for conventional and organic eggs if the retailer's margin is 20 percent based on the retail price? (AACSB: Communication; Analytical Reasoning)
2. How many dozen eggs does a conventional farmer need to sell to break even? How many does an organic farmer need to sell to break even?
(AACSB: Communication; Analytical Reasoning)

Video Case

Land Rover

The automotive industry has seen better days. Many auto companies are now facing declining revenues and negative profits. Additionally, because of its primary dependence on products that consume petroleum, the auto industry has a big environmental black mark, especially companies that primarily make fuel-guzzling trucks and SUVs.

During the past few years, however, the Land Rover has experienced tremendous growth in revenues and profits. It is currently selling more vehicles than ever worldwide. How is this possible for a company that only sells SUVs? One of the biggest reasons is Land Rover's strategic focus on social responsibility and environmentalism. Land Rover believes that it can meet consumer needs for luxury all-terrain vehicles while at the same time providing a vehicle that is kinder to the environment. As a corporation, it is also working feverishly to reduce its carbon emissions, waste, water consumption, and pollution. With actions like this, Land Rover is successfully repositioning its brand away from the standard perceptions of SUVs as environmental enemies.

After viewing the video featuring Land Rover, answer the following questions about the company's efforts toward social responsibility:

1. Make a list of social criticisms of the automotive industry. Discuss all of the ways that Land Rover is combating those criticisms.
2. By the textbook's definition, does Land Rover practice "sustainable marketing"?
3. Do you believe that Land Rover is sincere in its efforts to be environmentally friendly? Is it even possible for a large SUV to be environmentally friendly?

Company Case

Wilmar International: Addressing a Burning Issue

In June 2013, Indonesians, Malaysians, and Singaporeans woke up to a thick shroud of smoke. The culprit—farmers in Indonesia deliberately and illegally burning the forest to clear land for the cultivation of palm oil. This resulted in a haze that blanketed the region for weeks. Businesses came to a standstill as people stayed indoors and outside activities were called off.

Palm oil companies based in Malaysia and Singapore with operations in Indonesia were blamed. These companies relied on third party suppliers of palm oil who were suspected of illegally burning peat. These suppliers favored the cheaper, slash-and-burn land clearing as such fires cost them virtually nothing compared to using machinery to clear land which can run into more than $250 per hectare.

Palm oil is a quintessential ingredient in many products. Its unique characteristics make it suitable for personal care products such as soap, shampoo, and cosmetics, as well as industrial products such as tires and paints. Food manufacturers see it as a great substitute for transfats and as a non-GMO alternative to soybean oil. Unilever, the manufacturer of Ben & Jerry's ice cream and Dove soap, is the world's biggest palm oil buyer, buying 3 percent of the world's palm oil. Kellogg's uses palm oil in its food products as well.

Wilmar International, the world's largest palm oil trader, with some 40 percent of global production, is a target of both government pressure and environmental activists. It relies on third parties for more than 90 percent of its crude palm oil for refineries, and buys from 80 percent of the world's palm oil suppliers. Getting Wilmar to commit to non-burning for land cleaning would be a huge step towards forest conservation.

Khoon Hong Kuok, its Chairman and Chief Executive, was extremely upset that Wilmar was made to look like the biggest villain. In fact, its reputation was tarnished when the Norwegian sovereign wealth fund sold its stake in Wilmar in 2012 because it noted

❯ A man runs from an illegal fire that destroyed a plantation at Pekanbaru, Indonesia.

the continued deforestation in Malaysia and Indonesia, and the production of palm oil through unsustainable means. While Wilmar insists that it does not burn to clear land for its own plantations, it is questionable whether its numerous suppliers adhere to the same policy.

Besides governments seeking sanctions against companies responsible for the burning, environmental groups such as Forest Heroes, Forest Trust, and Greenpeace have been pressurizing Wilmar to be more pro-active.

Finally, in response to market forces, Wilmar announced in July 2013 that it would stop doing business with its suppliers if they were involved in land burning and clearing, without confirming whether or not its suppliers were indeed engaged in such activities. Unilever, one of Wilmar's biggest customers, had earlier announced that it would only buy palm oil from traceable sustainable sources. According to Kuok, customers and other stakeholders indicated that there is a strong and rapidly growing demand for traceable, deforestation-free palm oil, and Wilmar intended to meet it as a core element of its growth strategy.

However, in October 2013, there were allegations that Wilmar did not hold true to its promise. Greenpeace alleged that Indonesian company PT Jatim Jaya Perkasa, whose land was slashed and burned during the June haze, continued supplying palm oil to Wilmar. Greenpeace also published a controversial report indicating that the company is a culprit behind the habitat destruction of Sumatran tigers from illegal deforestation and land burning.

In response, Wilmar unveiled its "No Deforestation, No Peat, No Exploitation" policy in December 2013 that seeks to end the sourcing of palm oil from crops planted on peat or deforested land, as well as crops grown by exploited labor or without the consent of local communities. However, this policy will not be applied retroactively. It applies only to new plantings on the prohibited areas.

In January 2015, Wilmar, in collaboration with Forest Trust, launched a Web site called Wilmar Sustainability Dashboard that lists the names and locations of its Malaysian and Indonesian suppliers to raise transparency levels and address deforestation. Environmental groups cautiously welcomed this initiative, and added that this is a "gentle revolution."

Kouk considers himself an environmentalist today. He found himself a changed person a few years ago when he saw the damage climate change had on the environment in some countries.

Questions for Discussion

1. From a public relations perspective, assess Wilmar's response to the haze. Do you think Wilmar is genuine in its sustainability policy?
2. From a sustainability business perspective, assess Wilmar's response to end its sourcing of palm oil from suppliers who slash and burn. What business costs are there associated with this move? How enforceable is it on Wilmar's suppliers?
3. What would you do as the ultimate consumer of products that use palm oil? Should companies such as Unilever be held responsible for illegal deforestation?

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Appendix

1

Marketing Plan

The Marketing Plan: An Introduction (pp 673–674)

As a marketer, you'll need a good marketing plan to provide direction and focus for your brand, product, or company. With a detailed plan, any business will be better prepared to launch a new product or build sales for existing products. Non-profit organizations also use marketing plans to guide their fundraising and outreach efforts. Even government agencies develop marketing plans for initiatives such as building public awareness of proper nutrition and stimulating area tourism.

The Purpose and Content of a Marketing Plan

Unlike a business plan, which offers a broad overview of the entire organization's mission, objectives, strategy, and resource allocation, a marketing plan has a more limited scope. It serves to document how the organization's strategic objectives will be achieved through specific marketing strategies and tactics, with the customer as the starting point. It is also linked to the plans of other departments within the organization.

Suppose a marketing plan calls for selling 200,000 units annually. The production department must gear up to make that many units, the finance department must arrange funding to cover the expenses, the human resources department must be ready to hire and train staff, and so on. Without the appropriate level of organizational support and resources, no marketing plan can succeed.

Although the exact length and layout will vary from company to company, a marketing plan usually contains the elements described in Chapter 2. Smaller businesses may create shorter or less formal marketing plans, whereas corporations frequently require highly structured marketing plans. To effectively guide implementation, every part of the plan must be described in great detail. Sometimes a company will post its marketing plan on an internal Web site, which allows managers and employees in different locations to consult specific sections and collaborate on additions or changes.

The Role of Research

Marketing plans are not created in a vacuum. To develop successful strategies and action programs, marketers require up-to-date information about the environment, the competition, and the market segments to be served. Often, an analysis of internal data is the starting point for assessing the current marketing situation; this is supplemented by marketing intelligence and research investigating the overall market, the competition, key issues, and threats and opportunities. As the plan is implemented, marketers use a variety of research techniques to measure progress toward objectives and identify areas for improvement if the results fall short of projections.

Finally, marketing research helps marketers learn more about their customers' requirements, expectations, perceptions, and satisfaction levels. This deeper understanding is the foundation for building competitive advantage through well-informed segmenting, targeting, differentiating, and positioning decisions. Thus, the marketing plan should outline what marketing research will be conducted and how the findings will be applied.

The Role of Relationships

The marketing plan shows how the company will establish and maintain profitable customer relationships. It also shapes several internal and external relationships. First, it affects how marketing personnel work with one another and with other departments to deliver value and satisfy customers. Second, it affects how the company works with suppliers, distributors, and strategic alliance partners to achieve the objectives in the plan. Third, it influences the company's dealings with other stakeholders, including government regulators, the media, and the community at large. All of these relationships are important to the organization's success, so they should be considered when a marketing plan is being developed.

From Marketing Plan to Marketing Action

Companies generally create yearly marketing plans, although some plans cover longer periods of time. Marketers start planning well in advance of the implementation date to allow time for marketing research, thorough analysis, management review, and coordination between departments. Then, after each action program begins, marketers monitor ongoing results, compare them with projections, analyze any differences, and take corrective steps as needed. Some marketers also prepare contingency plans if certain conditions emerge. Because of inevitable and sometimes unpredictable environmental changes, marketers must be ready to update and adapt marketing plans at any time.

For effective implementation and control, the marketing plan should define how progress toward objectives will be measured. Managers typically use budgets, schedules, and performance standards for monitoring and evaluating results. With budgets, they can compare planned expenditures with actual expenditures for a given week, month, or other time period. Schedules allow management to see when tasks were supposed to be completed and when they were actually completed. Performance standards track the outcomes of marketing programs to see whether the company is moving toward its objectives. Some examples of performance standards are market share, sales volume, product profitability, and customer satisfaction.

Sample Marketing Plan for Sonic (pp 675–683)

This section takes you inside the sample marketing plan for Sonic, a hypothetical startup company. The company's first product is the Sonic 1000, a multimedia, cellular/Wi-Fi–enabled smartphone. Sonic will be competing with Apple, Nokia, Research in Motion (RIM), Samsung, HTC, and other local rivals in a crowded, fast-changing marketplace for smartphones that combine communication, entertainment, and storage functions. The marginal definitions in the margin explain the purpose and function of each section of the plan.

Executive Summary

Sonic is preparing to launch a new multimedia, dual-mode smartphone, the Sonic 1000, in a mature market. Our product offers a competitively unique combination of advanced features and functionality at a value-added price. We are targeting specific segments in the consumer and business markets, taking advantage of opportunities indicated by higher demand for easy-to-use smartphones with expanded communications, entertainment, and storage functions.

The primary marketing objective is to achieve first-year sales in China of 500,000 units. The primary financial objectives are to achieve a first-year sales revenue of $75 million, keep first-year losses under $8 million, and break even early in the second year.

Executive summary
This section summarizes and overviews the main goals, recommendations, and points for senior managers who will read and approve the marketing plan. For management convenience, a table of contents usually follows this section.

Current Marketing Situation

Sonic, founded 18 months ago by two entrepreneurs with experience in the PC market, is about to enter the mature smartphone market. Multifunction mobile phones, email devices, and wireless communication devices are commonplace for both personal and professional use. Research shows that China has 88.6 million wireless phones in a country of 1.34 billion people.

There is potential but competition is intense as international and value-priced local brands enter for a share of the pie. There may be industry consolidation and pricing pressures squeezing profitability in the years ahead.

Worldwide, Nokia is the smartphone leader, with 38 percent of the global market. The runner-up is Research in Motion, maker of the BlackBerry, with 18 percent of the global market. It is predicted that the number of smartphones in use worldwide will grow at an annual rate of 32 percent between 2010 and 2014. Most of the growth will be generated in developing markets in Asia and Latin America. In China, Nokia is also the market leader for smartphones, but competition is nipping it. To gain market share in this dynamic environment, Sonic must carefully target specific segments with features that deliver benefits valued by each customer group.

Current marketing situation
In this section, marketing managers discuss the overall market, identify the market segments they will target, and provide information about a company's current situation.

Market Description

Sonic's market consists of consumers and business users who prefer to use a single device for communication, information storage and exchange, and entertainment on the go. Specific segments being targeted during the first year include professionals, corporations, students, entrepreneurs, and medical users. **Table A1.1** shows how the Sonic 1000 addresses the needs of targeted consumer and business segments.

Buyers can choose from among models based on several different operating systems, including systems from Microsoft, BlackBerry, and Linux variations. Sonic licenses a Linux-based system because it is somewhat less vulnerable to

Market description
Describes the targeted segments in detail and provides context for the marketing strategies and detailed action programs discussed later in the plan.

Benefits and product features
Table A1.1 clarifies the benefits that product features will deliver to satisfy the needs of customers in each targeted segment.

TABLE A1.1 Segment Needs and Corresponding Features/Benefits

Targeted Segment	Customer Needs	Corresponding Features/Benefits
Professionals (consumer market)	■ Stay in touch conveniently and securely while on the go ■ Perform many functions hands-free without carrying multiple gadgets	■ Built-in mobile phone and push-to-talk feature to communicate anywhere, anytime ■ Wireless email/Web access from anywhere ■ Linux operating system that is less vulnerable to hackers ■ Voice-activated applications are convenient ■ GPS functionality and camera add value
Students (consumer market)	■ Perform many functions hands-free without carrying multiple gadgets ■ Express style and individuality	■ Compatible with numerous applications and peripherals for convenient, cost-effective communication and entertainment ■ Variety of smartphone cases
Corporate users (business market)	■ Security and adaptability for proprietary tasks ■ Obtain driving directions to business meetings	■ Customizable to fit corporate tasks and networks ■ Linux-based operating system less vulnerable to hackers ■ Built-in GPS allows voice-activated access to directions and maps
Entrepreneurs (business market)	■ Organize and access contacts, schedule details, and business and financial files ■ Get in touch fast	■ Hands-free, wireless access to calendar, address book, information files for checking appointments and data, and connecting with contacts ■ Push-to-talk instant calling speeds up communications
Medical users (business market)	■ Update, access, and exchange medical records ■ Photograph medical situations to maintain a visual record	■ Removable memory card and hands-free, wireless information recording reduces paperwork and increases productivity ■ Built-in camera allows fast and easy photography and stores images for later retrieval

attacks by hackers and viruses. Hard drives and removable memory cards are popular smartphone options. Sonic is equipping its first entry with an ultra-fast, 20-gigabyte removable memory card for information and entertainment storage. This will allow users to transfer photos and other data from the smartphone to a home or office computer. Technology costs are decreasing even as capabilities are increasing, which makes value-priced models more appealing to consumers and business users with older devices who want to trade up to new, high-end multifunction units.

Product review
The product review summarizes the main features for all of a company's products, organized by product line, type of customer, market, and/or order of product introduction.

Product Review

Our first product, the Sonic 1000, offers the following standard features with a Linux operating system:

- Built-in dual mobile phone/Internet phone functionality and push-to-talk instant calling
- Digital music/video/television recording, wireless downloading, and playback
- Wireless Web, email, text messaging, and instant messaging
- 3.5-inch color screen for easy viewing
- Organization functions, including calendar, address book, and synchronization
- GPS for directions and maps
- Integrated 4-megapixel digital camera
- Ultra-fast, 20-gigabyte removable memory card with upgrade potential
- Interchangeable case wardrobe of different colors and patterns
- Voice recognition functionality for hands-free operation

First-year sales revenues are projected to be $75 million, based on sales of 500,000 Sonic 1000 units at a wholesale price of $150 each. During the second year, we plan to introduce the Sonic 2000, also with a Linux operating system, as a higher-end smartphone product offering the following standard features:

- Global phone and messaging compatibility
- Translation capabilities to send Chinese text as English text (other languages to be offered as add-on options)
- Integrated 8-megapixel camera with flash

Competitive Review

The emergence of lower-priced smartphones, including the Apple iPhone, has increased competitive pressure. Competition from specialized devices for text and email messaging, such as BlackBerry devices, is a major factor as well. Another contender is Taiwanese smartphone manufacturer, HTC. There are also several local brands such as Huawei that are priced lower. Key competitors include the following:

Competitive review
The purpose of a competitive review is to identify key competitors, describe their market positions, and briefly discuss their strategies.

- *Nokia.* The market leader in smartphones, Nokia offers a wide range of products for personal and professional use. It purchased the maker of the Symbian operating system and made it into a separate foundation dedicated to improving and promoting this mobile software platform. Many of Nokia's smartphones offer full keyboards, similar to Research in Motion models. Nokia also offers stripped-down models for users who do not require the full keyboard and full multimedia capabilities.
- *Apple.* The stylish and popular iPhone 4s, and its subsequent 4s version, has a 3.5-inch color screen and is well-equipped for music, video, and Web access; it also has communication, calendar, contact management, and file management functions. Its global positioning system technology can pinpoint a user's location. Also, users can erase data with a remote command if the smartphone is lost or stolen.
- *RIM.* Lightweight BlackBerry wireless multifunction products are manufactured by Research in Motion and are especially popular among corporate users. RIM's continuous innovation and solid customer service strengthen its competitive standing as it introduces smartphones with enhanced features and communication capabilities. Its newest BlackBerry, the Torch 9800, is the company's first touch-screen smartphone that includes a full keyboard.
- *Samsung.* Value, style, function—Samsung is a strong competitor and offers a variety of smartphones for consumer and business segments. Some of its smartphones are available for specific telecommunications carriers, and some are "unlocked," ready for any compatible telecommunications network. Its newest smartphones, the Galaxy S series, are available in China.
- *HTC.* This Taiwanese smartphone manufacturer is a late entrant to the branded smartphones market in China. Before this launch, HTC had marketed its products under the Dopod brand.
- *Huawei.* Shenzhen-based Huawei is one of the biggest network vendors in China and considered to be the most capable high-tech company there. It entered into the smartphone foray in 2010 with the launch of Ideos, which Huawei calls an affordably priced device preinstalled with Google's Android 2.2 operating system. Ideos was designed and developed in partnership with Google. The Google logo appears on the back of the phone. The phone's sleek design and touchscreen echoes Apple's iPhone. However, unlike the iPhone, Ideos comes in a variety of colors. The company is planning to roll out a series of smartphones based on themes such as Music, Qwerty, and Smart.

Despite this strong competition, Sonic can carve out a definite image and gain recognition among the targeted segments. Our voice-recognition system for completely hands-free operation is a critical point of differentiation for competitive advantage. Also, offering GPS as a standard feature gives us a competitive edge compared with similarly priced smartphones. Moreover, our product is speedier than most and runs on the Linux operating system, which is an appealing alternative for customers concerned about security. **Table A1.2** shows a sample of competitive products and prices.

TABLE A1.2
Sample of Competitive Products

Competitor	Model	Features
Nokia	E71 classic	Quad-band for worldwide phone, email, and Internet access; monoblock with full keyboard; corporate and personal email integration; 2.36-inch screen; 3.2-megapixel camera; media player; Symbian operating system
Apple	iPhone 4	Sleek styling; 3.5-inch screen; fast Internet functions; one-touch calling; GPS navigation; voice commands; integrated personal and corporate email; open and edit Microsoft Office files; 5-megapixel camera; no keyboard; Apple operating system
RIM	BlackBerry Torch 9800	High-resolution, 3.2-inch touch-screen display; slide-out full keyboard; wireless email and Internet access; 5-megapixel camera; built-in maps and GPS; camera, and video recording; expandable memory; Blackberry operating system
Samsung	Captivate	Social network integration; embedded GPS; 4-inch AMOLED touch screen; 5-megapixel camera; audio and HD video capabilities; Android operating system

Channels and logistics review
In this section, marketers list the most important channels, overview each channel arrangement, and identify developing issues in channels and logistics.

Channels and Logistics Review

Sonic-branded products will be distributed through a network of Chinese retailers in the Tier 1 and Tier 2 cities. Some of the most important channel partners are as follows:

- *Computer stores.* Independent computer retailers will carry Sonic products.
- *Electronics specialty stores.* Independent specialty stores will feature Sonic products.
- *Online retailers.* Taobao.com will carry Sonic products and, for a promotional fee, will give Sonic prominent placement on its homepage during the introduction.
- Initially, our channel strategy will focus on the Tier 1 and Tier 2 cities; according to demand, we plan to expand into the smaller towns and beyond, with appropriate logistical support.

Strengths, Weaknesses, Opportunities, and Threats Analysis

Sonic has several powerful strengths on which to build, but our major weakness is a lack of brand awareness and image. The major opportunity is the demand for multimedia smartphones that deliver a number of valued benefits, eliminating the need for customers to carry more than one device. We also face the threat of ever-higher competition from consumer electronics manufacturers, as well as downward pricing pressure. **Table A1.3** summarizes Sonic's main strengths, weaknesses, opportunities, and threats.

Strengths

Sonic can build on three important strengths:

1. *Innovative product.* The Sonic 1000 offers a combination of features that would otherwise require customers to carry multiple devices: speedy, hands-free, dual-mode cell/Wi-Fi telecommunications capabilities; GPS functionality; and digital video/music/television program storage and playback.
2. *Security.* Our smartphone uses a Linux-based operating system that is less vulnerable to hackers and other security threats that can result in stolen or corrupted data.
3. *Pricing.* Our product is priced lower than many competing multifunction models—none of which offer the same bundle of features—which gives us an edge with price-conscious customers.

Strengths
Strengths are internal capabilities that can help a company reach its objectives.

Weaknesses

By waiting to enter the smartphone market until some consolidation of its competitors has occurred, Sonic has learned from the successes and mistakes of others. Nonetheless, we have two main weaknesses:

1. *Lack of brand awareness.* Sonic has no established brand or image, whereas Apple and others have strong brand recognition. We will address this issue with aggressive promotion.
2. *Physical specifications*. The Sonic 1000 is slightly heavier and thicker than most competing models because it incorporates multiple features, offers sizable storage capacity, and is compatible with numerous peripheral devices. To counteract this weakness, we will emphasize our product's benefits and value-added pricing, which are two compelling competitive strengths.

Weaknesses
Weaknesses are internal elements that may interfere with a company's ability to achieve its objectives.

Opportunities

Sonic can take advantage of two major market opportunities:

1. *Increasing demand for multimedia smartphones with multiple functions.* The market for multimedia, multifunction devices is growing much faster than the market for single-use devices. Growth will accelerate as dual-mode capabilities become mainstream, giving customers the flexibility to make phone calls over mobile or Internet connections. Smartphones are already commonplace in public, work, and educational settings, which is boosting primary demand. Also, customers who bought entry-level models are replacing older models with more advanced models.
2. *Cost-efficient technology.* Better technology is now available at a lower cost than ever before. Thus, Sonic can incorporate advanced features at a value-added price that allows for reasonable profits.

Opportunities
Opportunities are external elements that a company may be able to exploit to its advantage.

Threats

We face three main threats with the introduction of the Sonic 1000:

1. *Increased competition.* More companies are entering the China market with smartphone models that offer some but not all the features and benefits provided by Sonic's product. Therefore, Sonic's marketing communications must stress our clear differentiation and value-added pricing.
2. *Downward pressure on pricing.* Increased competition and market-share strategies are pushing smartphone prices down. Still, our objective of seeking a 10 percent profit on second-year sales of the original model is realistic, even given the lower margins in this market.

Threats
Threats are current or emerging external elements that could potentially challenge a company's performance.

3. *Compressed product life cycle.* Smartphones have reached the maturity stage of their life cycle more quickly than earlier technology products. We have contingency plans to keep sales growing by adding new features, targeting additional segments, and adjusting prices as needed.

Objectives and issues
A company's objectives should be defined in specific terms so management can measure progress and plan corrective action, if needed, to stay on track. This section describes any major issues that might affect a company's marketing strategy and implementation.

Objectives and Issues

We have set aggressive but achievable objectives for the first and second years of market entry.

- *First-year objectives.* During the Sonic 1000's initial year on the market, we are aiming for a unit sales volume of 500,000.
- *Second-year objectives.* Our second-year objectives are to sell a combined total of 1 million units of our two models and break even early in this period.

Issues

In relation to the product launch, our major issue is the ability to establish a well-regarded brand name linked to meaningful positioning. We will invest heavily in marketing to create a memorable and distinctive brand image projecting innovation, quality, and value. We also must measure awareness and response so we can adjust our marketing efforts as necessary.

Marketing Strategy

Sonic's marketing strategy is based on a positioning of product differentiation. Our primary consumer target is middle- to upper-income professionals who need one portable device to coordinate their busy schedules, communicate with family and colleagues, get driving directions, and be entertained on the go. Our secondary consumer target is high school, college, and graduate students who want a multimedia, dual-mode device. This segment can be described demographically by age (16–30) and educational attainment level.

Our primary business target is mid- to large-sized corporations that want to help their managers and employees stay in touch and be able to input or access critical data when not in the office. This segment consists of companies with more than $25 million in annual sales and more than 100 employees. We are also targeting entrepreneurs and small-business owners as well as medical users who want to update or access patients' medical records while reducing paperwork.

TABLE A1.3 Sonic's Strengths, Weaknesses, Opportunities, and Threats

Strengths	Weaknesses
■ Innovative combination of functions in one portable, voice-activated device ■ Security due to a Linux-based operating system ■ Value pricing	■ Lack of brand awareness and image ■ Heavier and thicker than most competing models
Opportunities	**Threats**
■ Increased demand for multimedia, multifunction smartphones ■ Cost-efficient technology	■ Intense competition ■ Downward pricing pressure ■ Compressed product life cycle

Positioning

Using product differentiation, we are positioning the Sonic as the most versatile, convenient, and value-added model for personal and professional use. Our marketing will focus on hands-free operation of multiple communication, entertainment, and information capabilities that differentiate the Sonic 1000 from its competitors.

Product Strategy

The Sonic 1000, including all the features described earlier, will be sold with a one-year warranty. We will introduce a more compact, powerful high-end model (the Sonic 2000) in the second year. Building the Sonic brand is an integral part of our product strategy. The brand and logo (Sonic's distinctive yellow thunderbolt) will be displayed on the product and be packaging and be reinforced by its prominence in the introductory marketing campaign.

Pricing Strategy

The Sonic 1000 will be introduced at $150 wholesale/$199 estimated retail price per unit. We expect to lower the price of this first model when we expand the product line by launching the Sonic 2000, whose wholesale price will be $175 per unit. These prices reflect a strategy of attracting desirable channel partners and taking share from Nokia, Research in Motion, Apple, and other established competitors.

Distribution Strategy

Our channel strategy is to use selective distribution, marketing Sonic smartphones through well-known stores and online retailers. During the first year, we will add channel partners until we have coverage in all major China markets and the product is included in the major electronics catalogs and Web sites. We will also investigate distribution through mobile-phone outlets maintained by major carriers, such as Verizon Wireless. In support of our channel partners, Sonic will provide demonstration products, detailed specification handouts, and full-color photos and displays featuring the product. Finally, we plan to arrange special payment terms for retailers that place volume orders.

Marketing Communications Strategy

By integrating all messages in all media, we will reinforce the brand name and the main points of product differentiation. Research about media consumption patterns will help our advertising agency choose appropriate media and timing to reach prospects before and during product introduction. Thereafter, advertising will appear on a pulsing basis to maintain brand awareness and communicate various differentiation messages. The agency will also coordinate public relations efforts to build the Sonic brand and support the differentiation message. To create buzz, we will host a user-generated video contest on our Web site. To attract, retain, and motivate channel partners for a push strategy, we will use trade sales promotions and personal selling. Until the Sonic brand has been established, our communications will encourage purchases through channel partners rather than from our Web site.

Positioning
Positioning built on meaningful differentiation, supported by appropriate strategy and implementation, can help a company build competitive advantage.

Marketing tools
This section summarizes the broad logic that will guide decisions made during the period covered by the plan.

Marketing research
This section shows how marketing research will be used to support development, implementation, and evaluation of strategies and action programs.

Marketing organization
The marketing department may be organized by function, as in this sample, geography, product, or customer (or some combination thereof).

Marketing Research

Using research, we are identifying the specific features and benefits that our target market segments value. Feedback from market tests, surveys, and focus groups will help us develop the Sonic 2000. We are also measuring and analyzing customers' attitudes toward competing brands and products. Brand awareness research will help us determine the effectiveness and efficiency of our messages and media. Finally, we will use customer satisfaction studies to gauge market reaction.

Marketing Organization

Sonic's chief marketing officer, Erica Leong, holds overall responsibility for all marketing activities. **Figure A1.1** shows the structure of the eight-person marketing organization. Sonic has hired Worldwide Marketing to handle national sales campaigns, trade and consumer sales promotions, and public relations efforts.

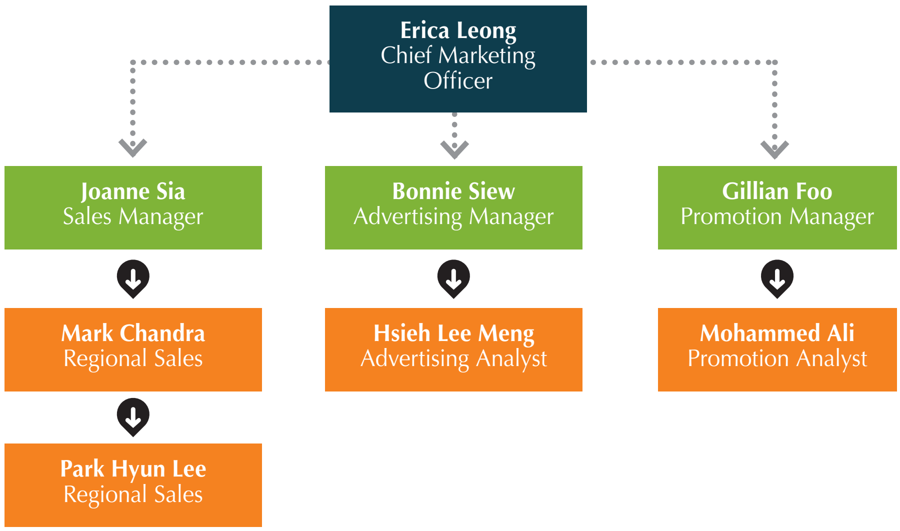

FIGURE A1.1
Sonic's marketing organization structure

Action programs
Action programs should be coordinated with the resources and activities of other departments, including production, finance, and purchasing.

Action Programs

The Sonic 1000 will be introduced in early February, before the Lunar New Year. The following are summaries of the action programs we will use during the first six months of next year to achieve our stated objectives.

- *January.* We will launch a $200,000 trade sales promotion campaign and exhibit at the major industry trade shows to educate dealers and generate channel support for the product launch in February. Also, we will create buzz by providing samples to selected product reviewers, opinion leaders, influential bloggers, and celebrities. Our training staff will work with retail sales personnel at major chains to explain the Sonic 1000's features, benefits, and advantages.
- *February.* We will start an integrated print/radio/Internet advertising campaign targeting professionals and consumers. The campaign will show how many functions the Sonic 1000 can perform and emphasize the convenience of a single, powerful handheld device. This multimedia campaign will be supported by point-of-sale signage as well as online-only ads and video tours.

- *March.* As the multimedia advertising campaign continues, we will add consumer sales promotions, such as a contest in which consumers post videos to our Web site showing how they use the Sonic 1000 in creative and unusual ways. We will also distribute new point-of-purchase displays to support our retailers.
- *April.* We will hold a trade sales contest offering prizes for the salesperson and retail organization that sells the most Sonic smartphones during the four-week period.
- *May.* We plan to roll out a new national advertising campaign this month. The radio ads will feature celebrity voices telling their Sonic smartphones to perform various functions, such as initiating a phone call, sending an email, playing a song or video, and so on. The stylized print and online ads will feature avatars of these celebrities holding their Sonic smartphones.
- *June.* Our radio campaign will add a new voiceover tagline promoting the Sonic 1000 as a graduation gift. We will also exhibit at the semi-annual electronics trade show and provide channel partners with new competitive comparison handouts as a sales aid. In addition, we will tally and analyze the results of customer satisfaction surveys for use in future promotions and provide feedback for product and marketing activities.

Budgets

Total first-year sales revenue for the Sonic 1000 is projected at $75 million, with an average wholesale price of $150 per unit and a variable cost per unit of $100 for 500,000 units. We anticipate a first-year loss of up to $8 million on the Sonic 1000 model. Break-even calculations indicate that the Sonic 1000 will become profitable after the sales volume exceeds 650,000, which we anticipate early in the product's second year. Our break-even analysis of Sonic's first smartphone product assumes wholesale revenue of $150 per unit, variable cost of $100 per unit, and estimated first-year fixed costs of $32,500,000. Based on these assumptions, the break-even calculation is as follows:

$$\frac{\$32{,}500{,}000}{\$150/\text{unit} - \$100/\text{unit}} = 267{,}500 \text{ units}$$

Budgets
Managers use budgets to project profitability and plan for each marketing program's expenditures, scheduling, and operations.

Controls

We are planning tight control measures to closely monitor quality and customer service satisfaction. This will enable us to react very quickly to correct any problems that may occur. Other early warning signals that will be monitored for signs of deviation from the plan include monthly sales (by segment and channel) and monthly expenses. Given the market's volatility, we are developing contingency plans to address fast-moving environmental changes, such as new technology and new competition.

Controls
Controls help management assess results after the plan is implemented, identify any problems or performance variations, and initiate corrective action.

Marketing Plan Tools

Pearson offers two valuable resources to assist you in developing a marketing plan:

- *The Marketing Plan Handbook* by Marian Burk Wood explains the process of creating a marketing plan and includes detailed checklists and dozens of real-world examples.
- *Marketing Plan Pro* is an award-winning software package that includes sample plans, step-by-step guides, an introductory video, help wizards, and customizable charts for documenting a marketing plan.

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Appendix
2

Marketing by the Numbers

Marketing managers are facing increased accountability for the financial implications of their actions. This appendix provides a basic introduction to measuring marketing financial performance. Such financial analysis guides marketers in making sound marketing decisions and in assessing the outcomes of those decisions.

The appendix is built around a hypothetical manufacturer of consumer electronics products—ConnectPhone. In the past, ConnectPhone has concentrated on making Internet modems. However, the company is now introducing a new type of product—a *media phone* that replaces a household's telephone and provides "always-on" Internet connectivity and wireless phone access through VoIP (Voice over Internet Protocol) technology. In this appendix, we will analyze the various decisions ConnectPhone's marketing managers must make before and after the new-product launch.

The appendix is organized into *three sections*. The *first section* introduces pricing, break-even, and margin analysis assessments that will guide the introduction of ConnectPhone's new product. The *second section* discusses demand estimates, the marketing budget, and marketing performance measures. It begins with a discussion of estimating market potential and company sales. It then introduces the marketing budget, as illustrated through a *pro forma* profit-and-loss statement followed by the actual profit-and-loss statement. Next, we discuss marketing performance measures, with a focus on helping marketing managers to better defend their decisions from a financial perspective. In the *third section*, we analyze the financial implications of various marketing tactics.

Each of the three sections ends with a set of quantitative exercises that provide you with an opportunity to apply the concepts you learned to situations beyond ConnectPhone.

Pricing, Break-Even, and Margin Analysis (pp 685–692)

Pricing Considerations

Determining price is one of the most important marketing-mix decisions. The limiting factors are demand and costs. Demand factors, such as buyer-perceived value, set the price ceiling. The company's costs set the price floor. In between these two factors, marketers must consider competitors' prices and other factors such as reseller requirements, government regulations, and company objectives.

Current competing media phone products sell at retail prices between $500 and $1,000. ConnectPhone plans to introduce its new product at a lower price to expand the market and to gain market share rapidly. We first consider ConnectPhone's pricing decision from a cost perspective. Then, we consider consumer value, the competitive environment, and reseller requirements.

Determining Costs

Fixed costs
Costs that do not vary with production or sales level.

Variable costs
Costs that vary directly with the level of production.

Total costs
The sum of the fixed and variable costs for any given level of production.

Recall from Chapter 10 that there are different types of costs. **Fixed costs** do not vary with production or sales level and include costs such as rent, interest, depreciation, and clerical and management salaries. Regardless of the level of output, the company must pay these costs. Whereas total fixed costs remain constant as output increases, the fixed cost per unit (or average fixed cost) will decrease as output increases because the total fixed costs are spread across more units of output. **Variable costs** vary directly with the level of production and include costs related to the direct production of the product (such as costs of goods sold—COGS) and many of the marketing costs associated with selling it. Although these costs tend to be uniform for each unit produced, they are called variable because their total varies with the number of units produced. **Total costs** are the sum of the fixed and variable costs for any given level of production.

ConnectPhone has invested $10 million in refurbishing an existing facility to manufacture the new media phone product. Once production begins, the company estimates that it will incur fixed costs of $20 million per year. The variable cost to produce each device is estimated to be $250 and is expected to remain at that level for the output capacity of the facility.

Setting Price Based on Costs

Cost-plus pricing (or markup pricing)
A standard markup to the cost of the product.

ConnectPhone starts with the cost-based approach to pricing discussed in Chapter 10. Recall that the simplest method, **cost-plus pricing** (or **markup pricing**), simply adds a standard markup to the cost of the product. To use this method, however, ConnectPhone must specify expected unit sales so that total unit costs can be determined. Unit variable costs will remain constant regardless of the output, but *average unit fixed costs* will decrease as output increases.

To illustrate this method, suppose ConnectPhone has fixed costs of $20 million, variable costs of $250 per unit, and expects unit sales of 1 million media phones. Thus, the cost per unit is given by:

$$\text{Unit cost} = \text{variable cost} + \frac{\text{fixed costs}}{\text{unit sales}} = \$250 + \frac{\$20{,}000{,}000}{1{,}000{,}000} = \$270$$

Relevant costs
Costs that will occur in the future and that will vary across the alternatives being considered.

Break-even price
The price at which total revenue equals total cost and profit is zero.

Note that we do *not* include the initial investment of $10 million in the total fixed cost figure. It is not considered a fixed cost because it is not a *relevant* cost. **Relevant costs** are those that will occur in the future and that will vary across the alternatives being considered. ConnectPhone's investment to refurbish the manufacturing facility was a one-time cost that will not reoccur in the future. Such past costs are *sunk costs* and should not be considered in future analyses.

Also notice that if ConnectPhone sells its product for $270, the price is equal to the total cost per unit. This is the **break-even price**—the price at which unit revenue (price) equals unit cost and profit is zero.

Suppose ConnectPhone does not want to merely break even but rather wants to earn a 25 percent markup on sales. ConnectPhone's markup price is:[1]

$$\text{Markup price} = \frac{\text{unit costs}}{(1 - \text{desired return on sales})} = \$250 + \frac{\$270}{1 - .25} = \$360$$

This is the price at which ConnectPhone would sell the product to resellers such as wholesalers or retailers to earn a 25 percent profit on sales.

Another approach ConnectPhone could use is called **return on investment (ROI) pricing** (or **target-return pricing**). In this case, the company *would* consider the initial $10 million investment, but only to determine the dollar profit goal. Suppose the company wants a 30 percent return on its investment. The price necessary to satisfy this requirement can be determined by:

Return on investment (ROI) pricing (or target-return pricing)
A cost-based pricing method that determines price based on a specified rate of return on investment.

$$\text{ROI price} = \text{unit cost} + \frac{\text{ROI} \times \text{investment}}{\text{unit sales}} = \$270 + \frac{0.3 \times \$10{,}000{,}000}{1{,}000{,}000} = \$273$$

That is, if ConnectPhone sells its product for $273, it will realize a 30 percent return on its initial investment of $10 million.

In these pricing calculations, unit cost is a function of the expected sales, which were estimated to be 1 million units. But what if actual sales were lower? Then the unit cost would be higher because the fixed costs would be spread over fewer units, and the realized percentage markup on sales or ROI would be lower. Alternatively, if sales are higher than the estimated 1 million units, unit cost would be lower than $270, so a lower price would produce the desired markup on sales or ROI. It's important to note that these cost-based pricing methods are *internally* focused and do not consider demand, competitors' prices, or reseller requirements. Because ConnectPhone will be selling this product to consumers through wholesalers and retailers offering competing brands, the company must consider markup pricing from this perspective.

Setting Price Based on External Factors

Whereas costs determine the price floor, ConnectPhone also must consider external factors when setting price. ConnectPhone does not have the final say concerning the final price of its media phones to consumers—retailers do. So it must start with its suggested retail price and work back. In doing so, ConnectPhone must consider the markups required by resellers that sell the product to consumers.

In general, a dollar **markup** is the difference between a company's selling price for a product and its cost to manufacture or purchase it. For a retailer, then, the markup is the difference between the price it charges consumers and the cost the retailer must pay for the product. Thus, for any level of reseller:

Markup
The difference between a company's selling price for a product and its cost to manufacture or purchase it.

$$\text{Dollar markup} = \text{selling price} - \text{cost}$$

Markups are usually expressed as a percentage, and there are two different ways to compute markups—on *cost* or on *selling price*:

$$\text{Markup percentage on cost} = \frac{\text{dollar markup}}{\text{cost}}$$

$$\text{Markup percentage on selling price} = \frac{\text{dollar markup}}{\text{selling price}}$$

To apply reseller margin analysis, ConnectPhone must first set the suggested retail price and then work back to the price at which it must sell the product to a wholesaler. Suppose retailers expect a 30 percent margin and wholesalers want a 20 percent margin based on their respective selling prices. And suppose that ConnectPhone sets a manufacturer's suggested retail price (MSRP) of $599.99 for its product.

Recall that ConnectPhone wants to expand the market by pricing low and generating market share quickly. ConnectPhone selected the $599.99 MSRP because it is lower than most competitors' prices, which can be as high as $1,000. And the company's research shows that it is below the threshold at which more consumers are willing to purchase the product. By using buyers' perceptions of value and not the seller's cost to determine the MSRP, ConnectPhone is using **value-based pricing**. For simplicity, we will use an MSRP of $600 in further analyses.

Value-based pricing
Offering just the right combination of quality and good service at a fair price.

Markup chain
The sequence of markups used by firms at each level in a channel.

To determine the price ConnectPhone will charge wholesalers, we must first subtract the retailer's margin from the retail price to determine the retailer's cost ($600 – ($600 × 0.30) = $420). The retailer's cost is the wholesaler's price, so ConnectPhone next subtracts the wholesaler's margin ($420 – ($420 × 0.20) = $336). Thus, the **markup chain** representing the sequence of markups used by firms at each level in a channel for ConnectPhone's new product is:

Suggested retail price:	$600
minus retail margin (30%):	– $180
Retailer's cost/wholesaler's price:	$420
minus wholesaler's margin (20%):	– $ 84
Wholesaler's cost/ConnectPhone's price:	$336

By deducting the markups for each level in the markup chain, ConnectPhone arrives at a price for the product to wholesalers of $336.

Break-Even and Margin Analysis

The previous analyses derived a value-based price of $336 for ConnectPhone's product. Although this price is higher than the break-even price of $270 and covers costs, that price assumed a demand of 1 million units. But how many units and what level of dollar sales must ConnectPhone achieve to break even at the $336 price? And what level of sales must be achieved to realize various profit goals? These questions can be answered through break-even and margin analysis.

Determining Break-Even Unit Volume and Dollar Sales

Based on an understanding of costs, consumer value, the competitive environment, and reseller requirements, ConnectPhone has decided to set its price to wholesalers at $336. At that price, what sales level will be needed for ConnectPhone to break even or make a profit on its media phones? **Break-even analysis** determines the unit volume and dollar sales needed to be profitable given a particular price and cost structure. At the break-even point, total revenue equals total costs and profit is zero. Above this point, the company will make a profit; below it, the company will lose money. ConnectPhone can calculate break-even volume using the following formula:

Break-even analysis
Analysis to determine the unit volume and dollar sales needed to be profitable given a particular price and cost structure.

Unit contribution
The amount that each unit contributes to covering fixed costs—the difference between price and variable costs.

$$\text{Break-even volume} = \frac{\text{fixed costs}}{\text{price} - \text{unit variable cost}}$$

The denominator (price – unit variable cost) is called **unit contribution** (sometimes called contribution margin). It represents the amount that each unit contributes to covering fixed costs. Break-even volume represents the level of output at which all (variable and fixed) costs are covered. In ConnectPhone's case, break-even unit volume is:

$$\text{Break-even volume} = \frac{\text{fixed costs}}{\text{price} - \text{variable cost}} = \frac{\$20{,}000{,}000}{\$336 - \$250} = 282.558.1 \text{ units}$$

Thus, at the given cost and pricing structure, ConnectPhone will break even at 232,559 units. To determine the break-even dollar sales, simply multiply unit break-even volume by the selling price:

$$\text{BE sales} = \text{BE}_{\text{vol}} \times \text{price} = 232{,}559 \times \$336 = \$78{,}139{,}824$$

Another way to calculate dollar break-even sales is to use the percentage contribution margin (hereafter referred to as **contribution margin**), which is the unit contribution divided by the selling price:

Contribution margin
The unit contribution divided by the selling price.

$$\text{Contribution margin} = \frac{\text{price} - \text{variable cost}}{\text{price}} = \frac{\$336 - \$250}{\$336} = 0.256 \text{ or } 25.6\%$$

Then,

$$\text{Break-even sales} = \frac{\text{fixed costs}}{\text{contribution margin}} = \frac{\$20{,}000{,}000}{0.256} = \$78{,}125{,}000$$

Note that the difference between the two break-even sales calculations is due to rounding. Such break-even analysis helps ConnectPhone by showing the unit volume needed to cover costs. If production capacity cannot attain this level of output, then the company should not launch this product. However, the unit break-even volume is well within ConnectPhone's capacity. Of course, the bigger question concerns whether ConnectPhone can sell this volume at the \$336 price. We'll address that issue a little later.

Understanding contribution margin is useful in other types of analyses as well, particularly if unit prices and unit variable costs are unknown or if a company (say, a retailer) sells many products at different prices and knows the percentage of total sales variable costs represent. Whereas unit contribution is the difference between unit price and unit variable costs, total contribution is the difference between total sales and total variable costs. The overall contribution margin can be calculated by:

$$\text{Contribution margin} = \frac{\text{total sales} - \text{total variable costs}}{\text{total sales}}$$

Regardless of the actual level of sales, if the company knows what percentage of sales is represented by variable costs, it can calculate contribution margin. For example, ConnectPhone's unit variable cost is \$250, or 74 percent of the selling price (\$250 ÷ \$336 = 0.74). That means for every \$1 of sales revenue for ConnectPhone, \$0.74 represents variable costs, and the difference (\$0.26) represents contribution to fixed costs. But even if the company doesn't know its unit price and unit variable cost, it can calculate the contribution margin from total sales and total variable costs or from knowledge of the total cost structure. It can set total sales equal to 100 percent regardless of the actual absolute amount and determine the contribution margin:

$$\text{Contribution margin} = \frac{100\% - 74\%}{100\%} = \frac{1 - 0.74}{1} = 1 - 0.74 = 0.26 \text{ or } 26\%$$

Note that this matches the percentage calculated from the unit price and unit variable cost information. This alternative calculation will be very useful later when analyzing various marketing decisions.

Determining "Break-Even" for Profit Goals

Although it is useful to know the break-even point, most companies are more interested in making a profit. Assume ConnectPhone would like to realize a \$5 million profit in the first year. How many units must it sell at the \$336 price to cover fixed costs and produce this profit? To determine this, ConnectPhone can simply add the profit figure to fixed costs and again divide by the unit contribution to determine unit sales:

$$\text{Unit volume} = \frac{\text{fixed cost} + \text{profit goal}}{\text{price} - \text{variable cost}} = \frac{\$20{,}000{,}000 + \$5{,}000{,}000}{\$336 - \$250}$$

$$= 290{,}697.7 \text{ units}$$

Thus, to earn a \$5 million profit, ConnectPhone must sell 290,698 units. Multiply by price to determine dollar sales needed to achieve a \$5 million profit:

$$\text{Dollar sales} = 290{,}698 \text{ units} \times \$336 = \$97{,}674{,}528$$

Or use the contribution margin:

$$\text{Sales} = \frac{\text{fixed cost} + \text{profit goal}}{\text{contribution margin}} = \frac{\$20{,}000{,}000 + \$5{,}000{,}000}{0.256} = \$97{,}656{,}250$$

Again, note that the difference between the two break-even sales calculations is due to rounding.

As we saw previously, a profit goal can also be stated as a return on investment goal. For example, recall that ConnectPhone wants a 30 percent return on its \$10 million investment. Thus, its absolute profit goal is \$3 million (\$10,000,000 × 0.30). This profit goal is treated the same way as in the previous example:[2]

$$\text{Unit volume} = \frac{\text{fixed cost} + \text{profit goal}}{\text{price} - \text{variable cost}} = \frac{\$20{,}000{,}000 + \$3{,}000{,}000}{\$336 - \$250}$$

$$= 267{,}442 \text{ units}$$

$$\text{Dollar sales} = 267{,}442 \text{ units} \times \$336 = \$89{,}860{,}512$$

Or

$$\text{Dollar sales} = \frac{\text{fixed cost} + \text{profit goal}}{\text{contribution margin}} = \frac{\$20{,}000{,}000 + \$3{,}000{,}000}{0.256}$$

$$= \$89{,}843{,}750$$

Finally, ConnectPhone can express its profit goal as a percentage of sales, which we also saw in previous pricing analyses. Assume ConnectPhone desires a 25 percent return on sales. To determine the unit and sales volume necessary to achieve this goal, the calculation is a little different from the previous two examples. In this case, we incorporate the profit goal into the unit contribution as an additional variable cost. Look at it this way: If 25 percent of each sale must go toward profits, that leaves only 75 percent of the selling price to cover fixed costs. Thus, the equation becomes:

$$\text{Unit volume} = \frac{\text{fixed cost}}{\text{price} - \text{variable cost} - (0.25 \times \text{price})} \quad \text{or}$$

$$\frac{\text{fixed cost}}{(0.75 \times \text{price}) - \text{variable cost}}$$

So,

$$\text{Unit volume} = \frac{\$20{,}000{,}000}{(0.75 \times \$336) - \$250} = 10{,}000{,}000 \text{ units}$$

$$\text{Dollar sales necessary} = 10{,}000{,}000 \text{ units} \times \$336 = \$3{,}360{,}000{,}000$$

Thus, ConnectPhone would need more than $3 billion in sales to realize a 25 percent return on sales given its current price and cost structure! Could it possibly achieve this level of sales? The major point is this: Although break-even analysis can be useful in determining the level of sales needed to cover costs or to achieve a stated profit goal, it does not tell the company whether it is *possible* to achieve that level of sales at the specified price. To address this issue, ConnectPhone needs to estimate demand for this product.

Before moving on, however, let's stop here and practice applying the concepts covered so far. Now that you have seen pricing and break-even concepts in action as they related to ConnectPhone's new product, here are several exercises for you to apply what you have learned in other contexts.

Marketing by the Numbers Exercise Set One

Now that you've studied pricing, break-even, and margin analysis as they relate to ConnectPhone's new-product launch, use the following exercises to apply these concepts in other contexts.

1.1 Sanborn, a manufacturer of electric roof vents, realizes a cost of $55 for every unit it produces. Its total fixed costs equal $2 million. If the company manufactures 500,000 units, compute the following:
- **a.** unit cost
- **b.** markup price if the company desires a 10 percent return on sales
- **c.** ROI price if the company desires a 25 percent return on an investment of $1 million

1.2 An interior decorator purchases items to sell in her store. She purchases a lamp for $125 and sells it for $225. Determine the following:
- **a.** dollar markup
- **b.** markup percentage on cost
- **c.** markup percentage on selling price

1.3 A consumer purchases a toaster from a retailer for $60. The retailer's markup is 20 percent, and the wholesaler's markup is 15 percent, both based on selling price. For what price does the manufacturer sell the product to the wholesaler?

1.4 A vacuum manufacturer has a unit cost of $50 and wishes to achieve a margin of 30 percent based on selling price. If the manufacturer sells directly to a retailer who then adds a set margin of 40 percent based on selling price, determine the retail price charged to consumers.

1.5 Advanced Electronics manufactures DVDs and sells them directly to retailers who typically sell them for $20. Retailers take a 40 percent margin based on the retail selling price. Advanced's cost information is as follows:

DVD package and disc	\$2.50/DVD
Royalties	\$2.25/DVD
Advertising and promotion	\$500,000
Overhead	\$200,000

Calculate the following:

a. contribution per unit and contribution margin

b. break-even volume in DVD units and dollars

c. volume in DVD units and dollar sales necessary if Advanced's profit goal is 20 percent profit on sales net profit if 5 million DVDs are sold

Demand Estimates, the Marketing Budget, and Marketing Performance Measures (pp 692–693)

Market Potential and Sales Estimates

Total market demand
The total volume that would be bought by a defined consumer group, in a defined geographic area, in a defined time period, in a defined marketing environment, under a defined level and mix of industry marketing effort.

Market potential
The upper limit of market demand.

ConnectPhone has now calculated the sales needed to break even and to attain various profit goals on its new product. However, the company needs more information regarding demand to assess the feasibility of attaining the needed sales levels. This information is also needed for production and other decisions. For example, production schedules need to be developed and marketing tactics need to be planned.

The **total market demand** for a product or service is the total volume that would be bought by a defined consumer group in a defined geographic area in a defined time period in a defined marketing environment under a defined level and mix of industry marketing effort. Total market demand is not a fixed number but a function of the stated conditions. For example, next year's total market demand for media phones will depend on how much other producers spend on marketing their brands. It also depends on many environmental factors, such as government regulations, economic conditions, and the level of consumer confidence in a given market. The upper limit of market demand is called **market potential**.

One general but practical method that ConnectPhone might use for estimating total market demand uses three variables: (1) the number of prospective buyers, (2) the quantity purchased by an average buyer per year, and (3) the price of an average unit. Using these numbers, ConnectPhone can estimate total market demand as follows:

$$Q = n \times q \times p$$

where
Q = total market demand
n = number of buyers in the market
q = quantity purchased by an average buyer per year
p = price of an average unit

A variation of this approach is the **chain ratio method**. This method involves multiplying a base number by a chain of adjusting percentages. For example, ConnectPhone's product is designed to replace a household's telephone as well as provide "always-on" Internet access. Thus, only households with broadband Internet access will be able to use the product. Finally, not all Internet households will be willing and able to purchase the new product. ConnectPhone can estimate U.S. demand using a chain of calculations like the following:

Chain ratio method
Estimating market demand by multiplying a base number by a chain of adjusting percentages.

Total number of U.S. households
× The percentage of U.S. households with broadband Internet access
× The percentage of these households willing and able to buy this device

The U.S. Census Bureau estimates that there are approximately 113 million households in the United States.[3] Research also indicates that 50 percent of U.S. households have broadband Internet access.[4] Finally, ConnectPhone's own research indicates that 33.1 percent of households possess the discretionary income needed and are willing to buy a device such as this. Then, the total number of households willing and able to purchase this product is:

$$113 \text{ million households} \times 0.50 \times 0.331 = 18.7 \text{ million households}$$

Households will need only one media phone. Assuming the average retail price across all brands is \$750 for this product, the estimate of total market demand is as follows:

$$18.7 \text{ million households} \times 1 \text{ device per household} \times \$750 = \$14 \text{ billion}$$

This simple chain of calculations gives ConnectPhone only a rough estimate of potential demand. However, more detailed chains involving additional segments and other qualifying factors would yield more accurate and refined estimates. Still, these are only *estimates* of market potential. They rely heavily on assumptions regarding adjusting percentages, average quantity, and average price. Thus, ConnectPhone must make certain that its assumptions are reasonable and defendable. As can be seen, the overall market potential in dollar sales can vary widely given the average price used. For this reason, ConnectPhone will use unit sales potential to determine its sales estimate for next year. Market potential in terms of units is 18.7 million (18.7 million households × 1 device per household).

Assuming that ConnectPhone wants to attain 2 percent market share (comparable to its share of the Internet modem market) in the first year after launching this product, then it can forecast unit sales at 18.7 million units × 0.02 = 374,000 units. At a selling price of \$336 per unit, this translates into sales of \$125,664,000 (374,000 units × \$336 per unit). For simplicity, further analyses will use forecasted sales of \$125 million.

This unit volume estimate is well within ConnectPhone's production capacity and exceeds not only the break-even estimate (232,559 units) calculated earlier, but also the volume necessary to realize a \$5 million profit (290,698 units) or a 30 percent return on investment (267,442 units). However, this forecast falls well short of the volume necessary to realize a 25 percent return on sales (10 million units!) and may require that ConnectPhone revise expectations.

To assess expected profits, we must now look at the budgeted expenses for launching this product. To do this, we will construct a pro forma profit-and-loss statement.

The Profit-and-Loss Statement and Marketing Budget (pp 694–695)

Pro forma (or projected) profit-and-loss statement (or income statement or operating statement)
A statement that shows projected revenues less budgeted expenses and estimates the projected net profit for an organization, product, or brand during a specific planning period, typically a year.

All marketing managers must account for the profit impact of their marketing strategies. A major tool for projecting such profit impact is a **pro forma** (or projected) *profit-and-loss statement* (also called an **income statement** or **operating statement**). A pro forma statement shows projected revenues less budgeted expenses and estimates the projected net profit for an organization, product, or brand during a specific planning period, typically a year. It includes direct product production costs, marketing expenses budgeted to attain a given sales forecast, and overhead expenses assigned to the organization or product. A profit-and-loss statement typically consists of several major components (see **Table A2.1**):

TABLE A2.1
Pro Forma Profit-and-Loss Statement for the 12-Month Period Ended 31 December 2011

			% of Sales
Net Sales		$125,000,000	100%
Cost of Goods Sold		62,500,000	50%
Gross Margin		$62,500,000	50%
Marketing Expenses			
Sales expenses	$17,500,000		
Promotion expenses	15,000,000		
Freight	12,500,000	45,000,000	36%
General and Administrative Expenses			
Managerial salaries and expenses	$2,000,000		
Indirect overhead	3,000,000	5,000,000	4%
Net Profit Before Income Tax		$12,500,000	10%

- *Net sales*—gross sales revenue minus returns and allowances (for example, trade, cash, quantity, and promotion allowances). ConnectPhone's net sales for 2011 are estimated to be $125 million, as determined in the previous analysis.
- *Cost of goods sold*—(sometimes called *cost of sales*)—the actual cost of the merchandise sold by a manufacturer or reseller. It includes the cost of inventory, purchases, and other costs associated with making the goods. ConnectPhone's cost of goods sold is estimated to be 50 percent of net sales, or $62.5 million.
- *Gross margin (or gross profit)*—the difference between net sales and cost of goods sold. ConnectPhone's gross margin is estimated to be $62.5 million.
- *Operating expenses*—the expenses incurred while doing business. These include all other expenses beyond the cost of goods sold that are necessary to conduct business. Operating expenses can be presented in total or broken down in detail. Here, ConnectPhone's estimated operating expenses include *marketing expenses* and *general and administrative expenses*.

Marketing expenses include sales expenses, promotion expenses, and distribution expenses. The new product will be sold through ConnectPhone's sales force, so the company budgets $5 million for sales salaries. However, because sales representatives earn a 10 percent commission on sales, ConnectPhone must also add a variable component to sales expenses of $12.5 million (10 percent of $125 million net sales), for a total budgeted sales expense of $17.5 million. ConnectPhone sets its advertising and promotion budget to launch this product at $10 million. However, the company also budgets 4 percent of sales, or $5 million, for cooperative advertising allowances to retailers who promote ConnectPhone's new product in their advertising. Thus, the total budgeted advertising and promotion expenses are $15 million ($10 million for advertising plus $5 million in cooperative allowances). Finally, ConnectPhone budgets 10 percent of net sales, or $12.5 million, for freight and delivery charges. In all, total marketing expenses are estimated to be $17.5 million + $15 million + $12.5 million = $45 million.

General and administrative expenses are estimated at $5 million, broken down into $2 million for managerial salaries and expenses for the marketing function and $3 million of indirect overhead allocated to this product by the corporate accountants (such as depreciation, interest, maintenance, and insurance). Total expenses for the year, then, are estimated to be $50 million ($45 million marketing expenses + $5 million in general and administrative expenses).

- *Net profit before taxes*—profit earned after all costs are deducted. ConnectPhone's estimated net profit before taxes is $12.5 million.

In all, as Table A2.1 shows, ConnectPhone expects to earn a profit of $12.5 million on its new product in 2011. Also note that the percentage of sales that each component of the profit-and-loss statement represents is given in the right-hand column. These percentages are determined by dividing the cost figure by net sales (that is, marketing expenses represent 36 percent of net sales determined by $45 million ÷ $125 million). As can be seen, ConnectPhone projects a net profit return on sales of 10 percent in the first year after launching this product.

Marketing Performance Measures (pp 695–700)

Now let's fast-forward a year. ConnectPhone's product has been on the market for one year and management wants to assess its sales and profit performance. One way to assess this performance is to compute performance ratios derived from ConnectPhone's **profit-and-loss statement** (or **income statement** or **operating statement**).

Profit-and-loss statement (or income statement or operating statement)
A statement that shows actual revenues less expenses and net profit for an organization, product, or brand during a specific planning period, typically a year.

◗ TABLE A2.2

Profit-and-Loss Statement for the 12-Month Period Ended 31 December 2011

			% of Sales
Net Sales		$100,000,000	100%
Cost of Goods Sold		55,000,000	55%
Gross Margin		$45,000,000	45%
Marketing Expenses			
Sales expenses	$15,000,000		
Promotion expenses	14,000,000		
Freight	10,000,000	39,000,000	39%
General and Administrative Expenses			
Managerial salaries and expenses	$2,000,000		
Indirect overhead	5,000,000	7,000,000	7%
Net Profit Before Income Tax		($1,000,000)	(1%)

Whereas the pro forma profit-and-loss statement shows *projected* financial performance, the statement given in **Table A2.2** shows ConnectPhone's *actual* financial performance based on actual sales, cost of goods sold, and expenses during the past year. By comparing the profit-and-loss statement from one period to the next, ConnectPhone can gauge performance against goals, spot favorable or unfavorable trends, and take appropriate corrective action.

The profit-and-loss statement shows that ConnectPhone lost $1 million rather than making the $12.5 million profit projected in the pro forma statement. Why? One obvious reason is that net sales fell $25 million short of estimated sales. Lower sales translated into lower variable costs associated with marketing the product. However, both fixed costs and the cost of goods sold as a percentage of sales exceeded expectations. Hence, the product's contribution margin was 21 percent rather than the estimated 26 percent. That is, variable costs represented 79 percent of sales (55 percent for cost of goods sold, 10 percent for sales commissions, 10 percent for freight, and 4 percent for cooperative allowances). Recall that contribution margin can be calculated by subtracting that fraction from one (1 – 0.79 = 0.21). Total fixed costs were $22 million, $2 million more than estimated. Thus, the sales that ConnectPhone needed to break even given this cost structure can be calculated as:

$$\text{Break-even sales} = \frac{\text{fixed costs}}{\text{contribution margin}} = \frac{\$22{,}000{,}000}{0.21} = \$104{,}761{,}905$$

If ConnectPhone had achieved another $5 million in sales, it would have earned a profit.

Although ConnectPhone's sales fell short of the forecasted sales, so did overall industry sales for this product. Overall industry sales were only $2.5 billion. That means that ConnectPhone's **market share** was 4 percent ($100 million ÷ $2.5 billion = 0.04 = 4%), which was higher than forecasted. Thus, ConnectPhone attained a higher-than-expected market share but the overall market sales were not as high as estimated.

Market share
Company sales divided by market sales.

Analytic Ratios

The profit-and-loss statement provides the figures needed to compute some crucial **operating ratios**—the ratios of selected operating statement items to net sales. These ratios let marketers compare the firm's performance in one year to that in previous years (or with industry standards and competitors' performance in that year). The most commonly used operating ratios are the gross margin percentage, the net profit percentage, and the operating expense percentage. The inventory turnover rate and return on investment (ROI) are often used to measure managerial effectiveness and efficiency.

Operating ratios
The ratios of selected operating statement items to net sales.

Gross margin percentage
The percentage of net sales remaining after cost of goods sold—calculated by dividing gross margin by net sales.

The **gross margin percentage** indicates the percentage of net sales remaining after cost of goods sold that can contribute to operating expenses and net profit before taxes. The higher this ratio, the more a firm has left to cover expenses and generate profit. ConnectPhone's gross margin ratio was 45 percent:

$$\text{Gross margin percentage} = \frac{\text{gross margin}}{\text{net sales}} = \frac{\$45{,}000{,}000}{\$100{,}000{,}000} = 0.45 = 45\%$$

Note that this percentage is lower than estimated, and this ratio is seen easily in the percentage of sales column in Table A2.2. Stating items in the profit-and-loss statement as a percent of sales allows managers to quickly spot abnormal changes in costs over time. If there was previous history for this product and this ratio was declining, management should examine it more closely to determine why it has decreased (that is, because of a decrease in sales volume or price, an increase in costs, or a combination of these). In ConnectPhone's case, net sales were $25 million lower than estimated, and cost of goods sold was higher than estimated (55 percent rather than the estimated 50 percent).

The **net profit percentage** shows the percentage of each sales dollar going to profit. It is calculated by dividing net profits by net sales:

Net profit percentage
The percentage of each sales dollar going to profit—calculated by dividing net profit by net sales.

$$\text{Net profit percentage} = \frac{\text{net profit}}{\text{net sales}} = \frac{-\$1{,}000{,}000}{\$100{,}000{,}000} = -0.01 = -1.0\%$$

This ratio is easily seen in the percentage of sales column. ConnectPhone's new product generated negative profits in the first year, not a good situation given that before the product launch net profits before taxes were estimated at more than $12 million. Later in this appendix, we will discuss further analyses the marketing manager should conduct to defend the product.

The **operating expense percentage** indicates the portion of net sales going to operating expenses. Operating expenses include marketing and other expenses not directly related to marketing the product, such as indirect overhead assigned to this product. It is calculated by:

Operating expense percentage
The portion of net sales going to operating expenses—calculated by dividing total expenses by net sales.

$$\text{Operating expense percentage} = \frac{\text{total expenses}}{\text{net sales}} = \frac{\$46{,}000{,}000}{\$100{,}000{,}000} = 0.46 = 46\%$$

This ratio can also be quickly determined from the percentage of sales column in the profit-and-loss statement by adding the percentages for marketing expenses and general and administrative expenses (39% + 7%). Thus, 46 cents of every sales dollar went to operations. Although ConnectPhone wants this ratio to be as low as possible, and 46 percent is not an alarming amount, it is of concern if it increases over time or if a loss is realized.

Inventory turnover rate (or stockturn rate)
The number of times an inventory turns over or is sold during a specified time period (often one year)—calculated based on costs, selling price, or units.

Another useful ratio is the **inventory turnover rate** (also called **stockturn rate** for resellers). The inventory turnover rate is the number of times an inventory turns over or is sold during a specified time period (often one year). This rate tells how quickly a business is moving inventory through the organization. Higher rates indicate that lower investments in inventory are made, thus freeing up funds for other investments. It may be computed on a cost, selling price, or unit basis. The formula based on cost is:

$$\text{Inventory turnover rate} = \frac{\text{cost of goods sold}}{\text{average inventory at cost}}$$

Assuming ConnectPhone's beginning and ending inventories were \$30 million and \$20 million, respectively, the inventory turnover rate is:

$$\text{Inventory turnover rate} = \frac{\$55{,}000{,}000}{(\$30{,}000{,}000 + \$20{,}000{,}000)/2}$$

$$= \frac{\$55{,}000{,}000}{\$25{,}000{,}000} = 2.2$$

That is, ConnectPhone's inventory turned over 2.2 times in 2011. Normally, the higher the turnover rate, the higher the management efficiency and company profitability. However, this rate should be compared to industry averages, competitors' rates, and past performance to determine if ConnectPhone is doing well. A competitor with similar sales but a higher inventory turnover rate will have fewer resources tied up in inventory, allowing it to invest in other areas of the business.

Return on investment (ROI)
A measure of managerial effectiveness and efficiency—net profit before taxes divided by total investment.

Companies frequently use **return on investment (ROI)** to measure managerial effectiveness and efficiency. For ConnectPhone, ROI is the ratio of net profit to total investment required to manufacture the new product. This investment includes capital investments in land, buildings, and equipment (here, the initial \$10 million to refurbish the manufacturing facility) plus inventory costs (ConnectPhone's average inventory totaled \$25 million), for a total of \$35 million. Thus, ConnectPhone's ROI for this product is:

$$\text{Return on investment} = \frac{\text{net profit before taxes}}{\text{investments}}$$

$$= \frac{-\$1{,}000{,}000}{\$35{,}000{,}000} = -.0286 = -2.86\%$$

ROI is often used to compare alternatives, and a positive ROI is desired. The alternative with the highest ROI is preferred to other alternatives. ConnectPhone needs to be concerned with the ROI realized. One obvious way ConnectPhone can increase ROI is to increase net profit by reducing expenses. Another way is to reduce its investment, perhaps by investing less in inventory and turning it over more frequently.

Marketing Profitability Metrics

Given the above financial results, you may be thinking that ConnectPhone should drop this new product. But what arguments can marketers make for keeping or dropping this product? The obvious arguments for dropping the product are that first-year sales were well below expected levels and the product lost money, resulting in a negative return on investment.

So what would happen if ConnectPhone did drop this product? Surprisingly, if the company drops the product, the profits for the total organization will decrease by \$4 million! How can that be? Marketing managers need to look closely at the numbers in the profit-and-loss statement to determine the *net marketing contribution* for a product. In ConnectPhone's case, the net marketing contribution for the product is \$4 million, and if the company drops it, that contribution will disappear as well. Let's look more closely at this concept to illustrate how marketing managers can better assess and defend their marketing strategies and programs.

Net Marketing Contribution

Net marketing contribution (NMC), along with other marketing metrics derived from it, measures *marketing* profitability. It includes only components of profitability that are controlled by marketing. Whereas the previous calculation of net profit before taxes from the profit-and-loss statement includes operating expenses not under marketing's control, NMC does not. Referring back to ConnectPhone's profit-and-loss statement given in Table A2.2, we can calculate net marketing contribution for the product as:

Net marketing contribution (NMC)
A measure of marketing profitability that includes only components of profitability controlled by marketing.

$$
\begin{aligned}
\text{NMC} &= \text{net sales} - \text{cost of goods sold} - \text{marketing expenses} \\
&= \$100 \text{ million} - \$55 \text{ million} - \$41 \text{ million} \\
&= \$4 \text{ million}
\end{aligned}
$$

The marketing expenses include sales expenses (\$15 million), promotion expenses (\$14 million), freight expenses (\$10 million), and the managerial salaries and expenses of the marketing function (\$2 million), which total \$41 million.

Thus, the product actually contributed \$4 million to ConnectPhone's profits. It was the \$5 million of indirect overhead allocated to this product that caused the negative profit. Further, the amount allocated was \$2 million more than estimated in the pro forma profit-and-loss statement. Indeed, if only the estimated amount had been allocated, the product would have earned a *profit* of \$1 million rather than losing \$1 million. If ConnectPhone drops the product, the \$5 million in fixed overhead expenses will not disappear—it will simply have to be allocated elsewhere. However, the \$4 million in net marketing contribution *will* disappear.

Marketing Return on Sales and Investment

To get an even deeper understanding of the profit impact of marketing strategy, we'll now examine two measures of marketing efficiency—*marketing return on sales* (marketing ROS) and *marketing return on investment* (marketing ROI).[5]

Marketing return on sales (or **marketing ROS**) shows the percentage of net sales attributable to the net marketing contribution. For our product, marketing ROS is:

Marketing return on sales (or marketing ROS)
The percentage of net sales attributable to the net marketing contribution—calculated by dividing net marketing contribution by net sales.

$$\text{Marketing ROS} = \frac{\text{net marketing contribution}}{\text{net sales}} = \frac{\$4{,}000{,}000}{\$100{,}000{,}000} = 0.04 = 4\%$$

Thus, out of every \$100 of sales, the product returns \$4 to ConnectPhone's bottom line. A high marketing ROS is desirable. But to assess whether this is a good level of performance, ConnectPhone must compare this figure to previous marketing ROS levels for the product, the ROSs of other products in the company's portfolio, and the ROSs of competing products.

Marketing return on investment (or marketing ROI)
A measure of the marketing productivity of a marketing investment—calculated by dividing net marketing contribution by marketing expenses.

Marketing return on investment (or **marketing ROI**) measures the marketing productivity of a marketing investment. In ConnectPhone's case, the marketing investment is represented by $41 million of the total expenses. Thus, marketing ROI is:

$$\text{Marketing ROI} = \frac{\text{net marketing contribution}}{\text{marketing expenses}} = \frac{\$4{,}000{,}000}{\$41{,}000{,}000} = 0.0976 = 9.76\%$$

As with marketing ROS, a high value is desirable, but this figure should be compared with previous levels for the given product and with the marketing ROIs of competitors' products. Note from this equation that marketing ROI could be greater than 100 percent. This can be achieved by attaining a higher net marketing contribution and/or a lower total marketing expense.

In this section, we estimated market potential and sales, developed profit-and-loss statements, and examined financial measures of performance. In the next section, we discuss methods for analyzing the impact of various marketing tactics. However, before moving on to those analyses, here's another set of quantitative exercises to help you apply what you've learned to other situations.

Marketing by the Numbers Exercise Set Two

2.1 Determine the market potential for a product that has 50 million prospective buyers who purchase an average of 3 per year and the price averages $25. How many units must a company sell if it desires a 10 percent share of this market?

2.2 Develop a profit-and-loss statement for the Westgate division of North Industries. This division manufactures light fixtures sold to consumers through home improvement and hardware stores. Cost of goods sold represents 40 percent of net sales. Marketing expenses include selling expenses, promotion expenses, and freight. Selling expenses include sales salaries totaling $3 million per year and sales commissions (5 percent of sales). The company spent $3 million on advertising last year, and freight costs were 10 percent of sales. Other costs include $2 million for managerial salaries and expenses for the marketing function and another $3 million for indirect overhead allocated to the division.

- **a.** Develop the profit-and-loss statement if net sales were $20 million last year.
- **b.** Develop the profit-and-loss statement if net sales were $40 million last year.
- **c.** Calculate Westgate's break-even sales.

2.3 Using the profit-and-loss statement you developed in question 2.2b, and assuming that Westgate's beginning inventory was $11 million, ending inventory was $7 million, and total investment was $20 million including inventory, determine the following:

- **a.** gross margin percentage
- **b.** net profit percentage
- **c.** operating expense percentage
- **d.** inventory turnover rate
- **e.** return on investment (ROI)
- **f.** net marketing contribution
- **g.** marketing return on sales (marketing ROS)
- **h.** marketing return on investment (marketing ROI)

Is the Westgate division doing well? Explain your answer.

Financial Analysis of Marketing Tactics (pp 701–705)

Although the first-year profit performance for ConnectPhone's new product was less than desired, management feels that this attractive market has excellent growth opportunities. Although the sales of ConnectPhone's product were lower than initially projected, they were not unreasonable given the size of the current market. Thus, ConnectPhone wants to explore new marketing tactics to help grow the market for this product and increase sales for the company.

For example, the company could increase advertising to promote more awareness of the new product and its category. It could add salespeople to secure greater product distribution. ConnectPhone could decrease prices so that more consumers could afford its product. Finally, to expand the market, ConnectPhone could introduce a lower-priced model in addition to the higher-priced original offering. Before pursuing any of these tactics, ConnectPhone must analyze the financial implications of each.

Increase Advertising Expenditures

Although most consumers understand the Internet and telephones, they may not be aware of media phones. Thus, ConnectPhone is considering boosting its advertising to make more people aware of the benefits of this device in general and of its own brand in particular. What if ConnectPhone's marketers recommend increasing national advertising by 50 percent to $15 million (assume no change in the variable cooperative component of promotional expenditures)? This represents an increase in fixed costs of $5 million. What increase in sales will be needed to break even on this $5 million increase in fixed costs?

A quick way to answer this question is to divide the increase in fixed cost by the contribution margin, which we found in a previous analysis to be 21 percent:

$$\text{Increase in sales} = \frac{\text{increase in fixed cost}}{\text{contribution margin}} = \frac{\$5{,}000{,}000}{0.21} = \$23{,}809{,}524$$

Thus, a 50 percent increase in advertising expenditures must produce a sales increase of almost $24 million to just break even. That $24 million sales increase translates into an almost 1 percent increase in market share (1 percent of the $2.5 billion overall market equals $25 million). That is, to break even on the increased advertising expenditure, ConnectPhone would have to increase its market share from 4 percent to 4.95 percent ($123,809,524 ÷ $2.5 billion = 0.0495 or 4.95% market share). All of this assumes that the total market will not grow, which might or might not be a reasonable assumption.

Increase Distribution Coverage

ConnectPhone also wants to consider hiring more salespeople to call on new retailer accounts and increase distribution through more outlets. Even though ConnectPhone sells directly to wholesalers, its sales representatives call on retail accounts to perform other functions in addition to selling, such as training retail salespeople. Currently, ConnectPhone employs 60 sales reps who earn an average of $50,000 in salary plus 10 percent commission on sales. The product is currently sold to consumers through 1,875 retail outlets. Suppose ConnectPhone wants to increase that number of outlets to 2,500, an increase of 625 retail outlets. How many additional salespeople will ConnectPhone need, and what sales will be necessary to break even on the increased cost?

One method for determining what size sales force ConnectPhone will need is the **workload method**. The workload method uses the following formula to determine the sales force size:

Workload method
An approach to determining sales force size based on the workload required and the time available for selling.

$$NS = \frac{NC \times FC \times LC}{TA}$$

where
NS = number of salespeople
NC = number of customers
FC = average frequency of customer calls per customer
LC = average length of customer call
TA = time an average salesperson has available for selling per year

ConnectPhone's sales reps typically call on accounts an average of 20 times per year for about 2 hours per call. Although each sales rep works 2,000 hours per year (50 weeks per year × 40 hours per week), they spent about 15 hours per week on non-selling activities such as administrative duties and travel. Thus, the average annual available selling time per sales rep per year is 1,250 hours (50 weeks × 25 hours per week). We can now calculate how many sales reps ConnectPhone will need to cover the anticipated 2,500 retail outlets:

$$NS = \frac{2{,}500 \times 20 \times 2}{1{,}250} = 80 \text{ salespeople}$$

Therefore, ConnectPhone will need to hire 20 more salespeople. The cost to hire these reps will be $1 million (20 salespeople x $50,000 salary per salesperson). What increase in sales will be required to break even on this increase in fixed costs? The 10 percent commission is already accounted for in the contribution margin, so the contribution margin remains unchanged at 21 percent. Thus, the increase in sales needed to cover this increase in fixed costs can be calculated by:

$$\text{Increase in sales} = \frac{\text{increase in fixed cost}}{\text{contribution margin}} = \frac{\$1{,}000{,}000}{0.21} = \$4{,}761{,}905$$

That is, ConnectPhone's sales must increase almost $5 million to break even on this tactic. So, how many new retail outlets will the company need to secure to achieve this sales increase? The average revenue generated per current outlet is $53,333 ($100 million in sales divided by 1,875 outlets). To achieve the nearly $5 million sales increase needed to break-even, ConnectPhone would need about 90 new outlets ($4,761,905 / $53,333 = 89.3 outlets), or about 4.5 outlets per new rep. Given that current reps cover about 31 outlets a piece (1,875 outlets / 60 reps), this seems very reasonable.

Decrease Price

ConnectPhone is also considering lowering its price to increase sales revenue through increased volume. The company's research has shown that demand for most types of consumer electronics products is elastic—that is, the percentage increase in the quantity demanded is greater than the percentage decrease in price.

What increase in sales would be necessary to break even on a 10 percent decrease in price? That is, what increase in sales will be needed to maintain the total contribution that ConnectPhone realized at the higher price? The current total contribution can be determined by multiplying the contribution margin by total sales:[6]

$$\text{Current total contribution} = \text{contribution margin} \times \text{sales}$$
$$= 0.21 \times \$100 \text{ million} = \$21 \text{ million}$$

Price changes result in changes in unit contribution and contribution margin. Recall that the contribution margin of 21 percent was based on variable costs representing 79 percent of sales. Therefore, unit variable costs can be determined by multiplying the original price by this percentage: $336 x 0.79 = $265.44 per unit. If price is decreased by 10 percent, the new price is $302.40. However, variable costs do not change just because price decreases, so the contribution and contribution margin decrease as follows:

	Old	New (reduced 10%)
Price	$336	$302.40
– Unit variable cost	$265.44	$265.44
= Unit contribution	$70.56	$36.96
Contribution margin	$70.56/$336 = 0.21 or 21%	$36.96/$302.40 =0.12 or 12%

So a 10 percent reduction in price results in a decrease in the contribution margin from 21 percent to 12 percent.[7] To determine the sales level needed to break even on this price reduction, we calculate the level of sales that must be attained at the new contribution margin to achieve the original total contribution of $21 million:

$$\text{New contribution margin} \times \text{new sales level} = \text{original total contribution}$$

So,

$$\text{New sales level} = \frac{\text{original contribution}}{\text{new contribution margin}} = \frac{\$21{,}000{,}000}{0.12} = \$175{,}000{,}000$$

Thus, sales must increase by $75 million ($175 million – $100 million) just to break even on a 10 percent price reduction. This means that ConnectPhone must increase market share to 7 percent ($175 million ÷ $2.5 billion) to achieve the current level of profits (assuming no increase in the total market sales). The marketing manager must assess whether or not this is a reasonable goal.

Extend the Product Line

As a final option, ConnectPhone is considering extending its product line by offering a lower-priced model. Of course, the new, lower-priced product would steal some sales from the higher-priced model. This is called **cannibalization**—the situation in which one product sold by a company takes a portion of its sales from other company products. If the new product has a lower contribution than the original product, the company's total contribution will decrease on the cannibalized sales. However, if the new product can generate enough new volume, it is worth considering.

Cannibalization
The situation in which one product sold by a company takes a portion of its sales from other company products.

To assess cannibalization, ConnectPhone must look at the incremental contribution gained by having both products available. Recall in the previous analysis we determined that unit variable costs were $265.44 and unit contribution was just over $70. Assuming costs remain the same next year, ConnectPhone can expect to realize a contribution per unit of approximately $70 for every unit of the original product sold.

Assume that the first model offered by ConnectPhone is called MP1 and the new, lower-priced model is called MP2. MP2 will retail for $400, and resellers will take the same markup percentages on price as they do with the higher-priced model. Therefore, MP2's price to wholesalers will be $224 as follows:

Retail price:		$400
minus retail margin (30%):	–	$120
Retailer's cost/wholesaler's price:		$280
minus wholesaler's margin (20%):	–	$ 56
Wholesaler's cost/ConnectPhone's price		$224

If MP2's variable costs are estimated to be $174, then its contribution per unit will equal $50 ($224 – $174 = $50). That means for every unit that MP2 cannibalizes from MP1, ConnectPhone will lose $20 in contribution toward fixed costs and profit (that is, $\text{contribution}_{MP2} - \text{contribution}_{MP1}$ = $50 – $70 = –$20). You might conclude that ConnectPhone should not pursue this tactic because it appears as though the company will be worse off if it introduces the lower-priced model. However, if MP2 captures enough additional sales, ConnectPhone will be better off even though some MP1 sales are cannibalized. The company must examine what will happen to total contribution, which requires estimates of unit volume for both products.

Originally, ConnectPhone estimated that next year's sales of MP1 would be 600,000 units. However, with the introduction of MP2, it now estimates that 200,000 of those sales will be cannibalized by the new model. If ConnectPhone sells only 200,000 units of the new MP2 model (all cannibalized from MP1), the company would lose $4 million in total contribution (200,000 units × –$20 per cannibalized unit = –$4 million)—not a good outcome. However, ConnectPhone estimates that MP2 will generate the 200,000 of cannibalized sales plus an additional 500,000 unit sales. Thus, the contribution on these additional MP2 units will be $25 million (that is, 500,000 units × $50 per unit = $25 million). The net effect is that ConnectPhone will gain $21 million in total contribution by introducing MP2.

The following table compares ConnectPhone's total contribution with and without the introduction of MP2:

	MP1 only	**MP1 and MP2**
MP1 contribution	600,000 units x $70 =$42,000,000	400,000 units x $70 = $28,000,000
MP2 contribution	0	700,000 units x $50 = $35,000,000
Total contribution	$42,000,000	$63,000,000

The difference in the total contribution is a net gain of $21 million ($63 million – $42 million). Based on this analysis, ConnectPhone should introduce the MP2 model because it results in a positive incremental contribution. However, if fixed costs will increase by more than $21 million as a result of adding this model, then the net effect will be negative and ConnectPhone should not pursue this tactic. Now that you have seen these marketing tactics analysis concepts in action as they related to ConnectPhone's new product, here are several exercises for you to apply what you have learned in this section in other contexts.

Marketing by the Numbers Exercise Set Three

3.1 Kingsford, Inc. sells small plumbing components to consumers through retail outlets. Total industry sales for Kingsford's relevant market last year were $80 million, with Kingsford's sales representing 10 percent of that total. Contribution margin is 25 percent. Kingsford's sales force calls on retail outlets and each sales rep earns $45,000 per year plus 1 percent commission on all sales. Retailers receive a 40 percent margin on selling price and generate average revenue of $10,000 per outlet for Kingsford.

a. The marketing manager has suggested increasing consumer advertising by $300,000. By how much would dollar sales need to increase to break even on this expenditure? What increase in overall market share does this represent?

b. Another suggestion is to hire three more sales representatives to gain new consumer retail accounts. How many new retail outlets would be necessary to break even on the increased cost of adding three sales reps?

c. A final suggestion is to make a 20 percent across-the-board price reduction. By how much would dollar sales need to increase to maintain Kingsford's current contribution? (See endnote 13 to calculate the new contribution margin.)

d. Which suggestion do you think Kingsford should implement? Explain your recommendation.

3.2 PepsiCo sells its soft drinks in approximately 400,000 retail establishments, such as supermarkets, discount stores, and convenience stores. Sales representatives call on each retail account weekly, which means each account is called on by a sales rep 52 times per year. The average length of a sales call is 75 minutes (or 1.25 hours). An average salesperson works 2,000 hours per year (50 weeks per year x 40 hours per week), but each spends 10 hours a week on non-selling activities, such as administrative tasks and travel. How many salespeople does PepsiCo need?

3.3 Hair Zone manufactures a brand of hairstyling gel. It is considering adding a modified version of the product—a foam that provides stronger hold. Hair Zone's variable costs and prices to wholesalers are:

	Current Hair Gel	New Foam Product
Unit selling price	2.00	2.25
Unit variable costs	.85	1.25

Hair Zone expects to sell 1 million units of the new styling foam in the first year after introduction, but it expects that 60 percent of those sales will come from buyers who normally purchase Hair Zone's styling gel. Hair Zone estimates that it would sell 1.5 million units of the gel if it did not introduce the foam. If the fixed cost of launching the new foam will be $100,000 during the first year, should Hair Zone add the new product to its line? Why or why not?

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Appendix 2

1. This is derived by rearranging the following equation and solving for price: Percentage markup = (price – cost ÷ price.
2. Again, using the basic profit equation, we set profit equal to ROI× I: ROI × I = (P × Q) – TFC – (Q × UVC). Solving for Q gives Q = (TFC + (ROI × I)) × (P – UVC).
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6. Total contribution can also be determined from the unit contribution and unit volume: Total contribution = unit contribution × unit sales. Total units sold in were 297,619 units, which can be determined by dividing total sales by price per unit ($100 million × $336). Total contribution = $70 contribution per unit × 297,619 units = $20,833,330 (difference due to rounding).
7. Recall that the contribution margin of 21 percent was based on variable costs representing 79 percent of sales. Therefore, if we do not know price, we can set it equal to $1.00. If price equals $1.00, 79 cents represents variable costs and 21 cents represents unit contribution. If price is decreased by 10 percent, the new price is $0.90. However, variable costs do not change just because price decreased, so the unit contribution and contribution margin decrease as follows:

	Old	New (reduced 10%)
Price	$1.00	$0.90
– Unit variable cost	$0.79	$0.79
= Unit contribution	$0.21	$0.11
Contribution margin	$0.21/$1.00 = 0.21 or 21%	$0.11/$0.90 = 0.12 or 12%

Glossary

Adapted global marketing An international marketing strategy that adjusts the marketing strategy and mix elements to each international target market, bearing more costs but hoping for a larger market share and return.

Administered VMS A vertical marketing system that coordinates successive stages of production and distribution, not through common ownership or contractual ties, but through the size and power of one of the parties.

Adoption process The mental process through which an individual passes from first hearing about an innovation to final adoption.

Advertising Any paid form of non-personal presentation and promotion of ideas, goods, or services by an identified sponsor.

Advertising agency A marketing services firm that assists companies in planning, preparing, implementing, and evaluating all or portions of their advertising programs.

Advertising budget The dollars and other resources allocated to a product or company advertising program.

Advertising media The vehicles through which advertising messages are delivered to their intended audiences.

Advertising objective A specific communication task to be accomplished with a specific target audience during a specific period of time.

Advertising strategy The strategy by which the company accomplishes its advertising objectives. It consists of two major elements: creating advertising messages and selecting advertising media.

Affordable method Setting the promotion budget at the level which management thinks the company can afford.

Age and life-cycle segmentation Dividing a market into different age and life-cycle groups.

Agent A wholesaler who represents buyers or sellers on a relatively permanent basis, performs only a few functions, and does not take title to goods.

Allowance Promotional money paid by manufacturers to retailers in return for an agreement to feature the manufacturer's products in some way.

Alternative evaluation The stage of the buyer decision process in which the consumer uses information to evaluate alternative brands in the choice set.

Approach A salesperson meets the customer for the first time.

Attitude A person's relatively consistent evaluations, feelings, and tendencies toward an object or idea.

Baby boomers The 78 million people born during the baby boom following World War II and lasting till the early 1960s.

Basing-point pricing A geographical pricing strategy in which the seller designates a city as a basing point and charges all customers the freight cost from that city to the customer.

Behavioral segmentation Dividing a market into groups based on consumer knowledge, attitude, use of, or response to a product.

Belief A descriptive thought that a person has about something.

Benchmarking The process of comparing the company's products and processes to those of competitors or leading firms in other industries to find ways to improve quality and performance.

Benefit segmentation Dividing a market into groups according to the different benefits that consumers seek from the product.

Blogs Online journals where people post their thoughts, usually on a narrowly defined topic.

Brand A name, term, sign, symbol, or design, or a combination of these that identifies the products or services of one seller or group of sellers and differentiates them from those of competitors.

Brand equity The positive differential effect that knowing the brand name has on customer response to the product or service.

Brand extension Extending an existing brand name to new product categories.

Brand personality The specific mix of human traits that may be attributed to a particular brand.

Break-even pricing (or target profit pricing) Setting prices to break even on the costs of making and marketing a product, or setting prices to make a target profit.

Broker A wholesaler who does not take title to goods and whose function is to bring buyers and sellers together and assist in negotiation.

Business analysis A review of the sales, costs, and profit projections for a new product to find out whether these factors satisfy the company's objectives.

Business buyer behavior The buying behavior of the organizations that buy goods and services for use in the production of other products and services or for the purpose of reselling or renting them to others at a profit.

Business buying process The decision process by which business buyers determine which products and services their organizations need to purchase, and then find, evaluate, and choose among alternative suppliers and brands.

Business portfolio The collection of businesses and products that make up the company.

Business promotion tools Sales promotion tools used to generate business leads, stimulate purchases, reward customers, and motivate salespeople.

Business-to-business (B2B) online marketing Businesses using online marketing to reach new business customers, serve current customers more effectively, and obtain buying efficiencies and better prices.

Business-to-consumer (B2C) online marketing Businesses selling goods and services online to final consumers.

Buyer-readiness stages The stages consumers normally pass through on their way to purchase, including awareness, knowledge, liking, preference, conviction, and purchase.

Buyers People in the organization's buying center who make an actual purchase.

Buying center All the individuals and units that play a role in the purchase decision-making process.

Buzz marketing Cultivating opinion leaders and getting them to spread information about a product or service to others in their communities.

By-product pricing Setting a price for by-products to make the main product's price more competitive.

Captive-product pricing Setting a price for products that must be used along with a main product, such as blades for razors and cartridges for printers.

Catalog marketing Direct marketing through print, video, or electronic catalogs that are mailed to select customers, made available in stores, or presented online.

Category killer Giant specialty store that carries a very deep assortment of a particular line and is staffed by knowledgeable employees.

Causal research Marketing research to test hypotheses about cause-and-effect relationships.

Chain store Two or more outlets that are commonly owned and controlled.

Channel conflict Disagreement among marketing channel members on goals and roles—who should do what and for what rewards.

Channel level A layer of intermediaries that performs some work in bringing the product and its ownership closer to the final buyer.

Click-and-mortar companies Traditional brick-and-mortar companies that have added online marketing to their operations.

Click-only companies The so-called dot-coms, which operate online only and have no brick-and-mortar market presence.

Closing A salesperson asks the customer for an order.

Co-branding The practice of using the established brand names of two different companies on the same product.

Cognitive dissonance Buyer discomfort caused by post-purchase conflict.

Commercialization Introducing a new product into the market.

Communication adaptation A global communication strategy of fully adapting advertising messages to local markets.

Competition-based pricing Setting prices based on competitors' strategies, costs, prices, and market offerings.

Competitive advantage An advantage over competitors gained by offering consumers greater value, either through lower prices or by providing more benefits that justify higher prices.

Competitive advantage An advantage over competitorsgained by offering consumers greater value than competitors do.

Competitive marketing intelligence The systematic collection and analysis of publicly available information about consumers, competitors, and developments in the marketing environment.

Competitive marketing strategies Strategies that strongly position the company against competitors and give the company the strongest possible strategic advantage.

Competitive-parity method Setting the promotion budget to match competitors' outlays.

Competitor analysis The process of identifying key competitors; assessing their objectives, strategies, strengths and weaknesses, and reaction patterns; and selecting which competitors to attack or avoid.

Competitor-centered company A company whose moves are based mainly on competitors' actions and reactions.

Complex buying behavior Consumer buying behavior in situations characterized by high consumer involvement in a purchase and significant perceived differences among brands.

Concentrated (or niche) marketing A market-coverage strategy in which a firm goes after a large share of one or a few segments or niches.

Concept testing Testing new-product concepts with a group of target consumers to find out if the concepts have strong consumer appeal.

Consumer buyer behavior The buying behavior of final consumers—individuals and households who buy goods and services for personal consumption.

Consumer market All the individuals and households who buy or acquire goods and services for personal consumption.

Consumer product Product bought by final consumer for personal consumption.

Consumer promotion tools Sales promotion tools used to urge short-term customer buying or to enhance long-term customer relationships.

Consumer-to-business (C2B) online marketing Online exchanges in which consumers search out sellers, learn about their offers, and initiate purchases; sometimes even driving transaction terms.

Consumer-to-consumer (C2C) online marketing Online exchanges of goods and information between final consumers.

Consumerism An organized movement of citizens and government agencies to improve the rights and power of buyers in relation to sellers.

Consumer-oriented marketing A principle of sustainable marketing that holds that the company should view and organize its marketing activities from the consumer's point of view.

Contract manufacturing A joint venture in which a company contracts with manufacturers in a foreign market to produce the product or provide its service.

Contractual VMS A vertical marketing system in which independent firms at different levels of production and distribution join together through contracts to obtain more economies or sales impact than they could achieve alone.

Convenience product Consumer product that the customer usually buys frequently, immediately, and with minimum comparison and buying effort.

Convenience store A small store, located near a residential area, that is open long hours seven days a week and carries a limited line of high-turnover convenience goods.

Conventional distribution channel A channel consisting of one or more independent producers, wholesalers, and retailers, each a separate business seeking to maximize its own profits.

Corporate (or brand) Web site A Web site designed to build customer goodwill, collect customer feedback, and supplement other sales channels, rather than sell the company's products directly.

Corporate VMS A vertical marketing system that combines successive stages of production and distribution under single ownership—channel leadership is established through common ownership.

Cost-based pricing Setting prices based on the costs for producing, distributing, and selling the product plus a fair rate of return for effort and risk.

Cost-plus pricing (or markup pricing) Adding a standard markup to the cost of the product.

Countertrade International trade involving the direct or indirect exchange of goods for other goods instead of cash.

Creative concept The compelling "big idea" that will bring the advertising message strategy to life in a distinctive and memorable way.

Crowdsourcing Inviting broad communities of people—customers, employees, independent scientists and researchers, and even the public at large—into the new-product innovation process.

Crowdsourcing Outsourcing tasks that are traditionally performed by an employee, to an undefined, large group of people or community (a "crowd"), through an open call, using online methods.

Cultural environment Institutions and other forces that affect society's basic values, perceptions, preferences, and behaviors.

Culture The set of basic values, perceptions, wants, and behaviors learned by a member of society from family and other important institutions.

Customer (or market) sales force structure A sales force organization under which salespeople specialize in selling only to certain customers or industries.

Customer database An organized collection of comprehensive data about individual customers or prospects, including geographic, demographic, psychographic, and behavioral data.

Customer equity The total combined customer lifetime values of all of the company's customers.

Customer insights Fresh understandings of customers and the marketplace derived from marketing information that become the basis for creating customer value and relationships.

Customer lifetime value The value of the entire stream of purchases that a customer would make over a lifetime of patronage.

Customer perceived value The customer's evaluation of the difference between all the benefits and all the costs of a market offering relative to those of competing offers.

Customer relationship management The overall process of building and maintaining profitable customer relationships by delivering superior customer value and satisfaction.

Customer relationship management (CRM) Managing detailed information about individual customers and carefully managing customer touch points to maximize customer loyalty.

Customer satisfaction The extent to which a product's perceived performance matches a buyer's expectations.

Customer value analysis Analysis conducted to determine what benefits target customers value and how they rate the relative value of various competitors' offers.

Customer value–based pricing Setting prices based on buyers' perceptions of value rather than on the seller's cost.

Customer-centered company A company that focuses on customer developments in designing its marketing strategies and on delivering superior value to its target customers.

Customer-centered new-product development New-product development that focuses on finding new ways to solve customer problems and create more customer-satisfying experiences.

Customer-value marketing A principle of sustainable marketing that holds that a company should put most of its resources into customer value-building marketing investments.

Customer-generated marketing Brand exchanges created by consumers themselves—both invited and uninvited—by which consumers are playing an increasing role in shaping their own brand experiences and those of other consumers.

Deciders People in the organization's buying center who have formal or informal power to select or approve the final suppliers.

Decline stage The product life-cycle stage in which a product's sales decline.

Deficient products Products that have neither immediate appeal nor long-run benefits.

Demand curve A curve that shows the number of units the market will buy in a given time period, at different prices that might be charged.

Demands Human wants that are backed by buying power.

Demographic segmentation Dividing a market into groups based on variables such as age, gender, family size, family life cycle, income, occupation, education, religion, race, generation, and nationality.

Demography The study of human population in terms of size, density, location, age, gender, race, occupation, and other statistics.

Department store A retail organization that carries a wide variety of product lines—each line is operated as a separate department managed by specialist buyers or merchandisers.

Derived demand Business demand that ultimately comes from (derives from) the demand for consumer goods.

Descriptive research Marketing research to better describe marketing problems, situations, or markets, such as the market potential for a product or the demographics and attitudes of consumers.

Desirable products Products that give both high immediate satisfaction and high long-run benefits.

Differentiated (or segmented) marketing A market-coverage strategy in which a firm decides to target several market segments and designs separate offers for each.

Differentiation Actually differentiating the market offering to create superior customer value.

Direct investment Entering a foreign market by developing foreign-based assembly or manufacturing facilities.

Direct marketing Direct connections with carefully targeted individual consumers to both obtain an immediate response and cultivate lasting customer relationships.

Direct marketing Direct connections with carefully targeted individual consumers, often on a one-to-one, interactive basis.

Direct marketing channel A marketing channel that has no intermediary levels.

Direct-mail marketing Direct marketing by sending an offer, announcement, reminder, or other item to a person at a particular physical or virtual address.

Direct-response television (DRTV) marketing Direct marketing via television, including direct-response television advertising (or infomercials) and home shopping channels.

Discount store A retail operation that sells standard merchandise at lower prices by accepting lower margins and selling at higher volume.

Discount A straight reduction in price on purchases during a stated period of time.

Disintermediation The cutting out of marketing channel intermediaries by product or service producers, or the displacement of traditional resellers by radical new types of intermediaries.

Dissonance-reducing buying behavior Consumer buying behavior in situations characterized by high involvement but few perceived differences among brands.

Distribution center A large, highly automated warehouse designed to receive goods from various plants and suppliers, take orders, fill them efficiently, and deliver goods to customers as quickly as possible.

Diversification A strategy for company growth through starting up or acquiring businesses outside the company's current products and markets.

Downsizing Reducing the business portfolio by eliminating the products of business units that are not profitable or that no longer fit in the company's overall strategy.

Dynamic pricing Adjusting prices continually to meet the characteristics and needs of individual customers and situations.

Economic community A group of nations organized to work toward common goals in the regulation of international trade.

Economic environment Factors that affect consumer buying power and spending patterns.

Environmental sustainability Developing strategies and practices that create a world economy that the planet can support indefinitely.

Environmental sustainability A management approach that involves developing strategies that both sustain the environment and produce profits for the company.

Environmentalism An organized movement of concerned citizens and government agencies to protect and improve people's living environment.

E-procurement Purchasing through electronic connections between buyers and sellers—usually online.

Ethnographic research A form of observational research that involves sending trained observers to watch and interact with consumers in their "natural habitat."

Event marketing (or event sponsorships) Creating a brand-marketing event or serving as a sole or participating sponsor of events created by others.

Exchange The act of obtaining a desired object from someone by offering something in return.

Exclusive distribution Giving a limited number of dealers the exclusive right to distribute the company's products in their territories.

Execution style The approach, style, tone, words, and format used for executing an advertising message.

Experience curve (or learning curve) The drop in the average per-unit production cost that comes with accumulated production experience.

Experimental research Gathering primary data by selecting matched groups of subjects, giving them different treatments, controlling related factors, and checking for differences in group responses.

Exploratory research Marketing research to gather preliminary information that will help define problems and suggest hypotheses.

Exporting Entering a foreign market by selling goods produced in the company's home country, often with little modification.

Factory outlet Off-price retailing operation that is owned and operated by a manufacturer and that normally carries the manufacturer's surplus, discontinued, or irregular goods.

Fad A temporary period of unusually high sales driven by consumer enthusiasm and immediate product or brand popularity.

Fashion A currently accepted or popular style in a given field.

Fixed costs (or overhead) Costs that do not vary with production or sales level.

FOB-origin pricing A geographical pricing strategy in which goods are placed free on board a carrier, and the customer pays the freight from the factory to the destination.

Focus group interviewing Personal interviewing that involves inviting six to 10 people to gather for a few hours with a trained interviewer to talk about a product, service, or organization. The interviewer "focuses" the group discussion on important issues.

Follow-up A salesperson follows up after the sale to ensure customer satisfaction and repeat business.

Franchise A contractual association between a manufacturer, wholesaler, or service organization (a franchisor) and independent businesspeople (franchisees) who buy the right to own and operate one or more units in the franchise system.

Franchise organization A contractual vertical marketing system in which a channel member, called a franchisor, links several stages in the production–distribution process.

Freight-absorption pricing A geographical pricing strategy in which the seller absorbs all or part of the freight charges to get the desired business.

Gatekeepers People in the organization's buying center who control the flow of information to others.

Gender segmentation Dividing a market into different segments based on gender.

General need description The stage of the business buying process in which the company describes the general characteristics and quantity of a needed item.

Generation X The people born between 1965 and 1976 in the "birth dearth" following the baby boom.

Geographic segmentation Dividing a market into different geographical units such as nations, states, regions, counties, cities, or neighborhoods.

Geographical pricing Setting prices for customers located in different parts of the country or world.

Global firm A firm that, by operating in more than one country, gains R&D, production, marketing, and financial advantages in its costs and reputation that are not available to purely domestic competitors.

Good-value pricing Offering just the right combination of quality and good service at a fair price.

Government market Government units—federal, state, and local—that purchase or rent goods and services for carrying out the main functions of government.

Group Two or more people who interact to accomplish individual or mutual goals.

Growth stage The product's life-cycle stage in which a product's sales start climbing quickly.

Growth-share matrix A portfolio-panning method that evaluates a company's strategic business units in terms of their market growth rate and relative market share. SBUs are classified as stars, cash cows, question marks, or dogs.

Habitual buying behavior Consumer buying behavior in situations characterized by low consumer involvement and few significant perceived brand differences.

Handling objections A salesperson seeks out, clarifies, and overcomes any customer objections to buying.

Horizontal marketing system A channel arrangement in which two or more companies at one level join together to follow a new marketing opportunity.

Idea generation The systematic search for new-product ideas.

Idea screening Screening new-product ideas to spot new ideas and to drop poor ones as soon as possible.

Income segmentation Dividing a market into different income groups.

Independent off-price retailer Off-price retailer that is either owned and run by entrepreneurs or is a division of a larger retail corporation.

Indirect marketing channels Channel containing one or more intermediary levels.

Individual marketing Tailoring products and marketing programs to the needs and preferences of individual customers—also called customized marketing, one-to-one marketing, and markets-of-one marketing.

Industrial product Product bought by individuals and organizations for further processing or for use in conducting a business.

Influencers People in an organization's buying center who affect the buying decision; they often help define specifications and also provide information for evaluating alternatives.

Information search The stage of the buyer decision process in which the consumer is aroused to search for more information; the consumer may simply have heightened attention or may go into active information search.

Innovative marketing A principle of sustainable marketing that requires that a company seek real product and marketing improvements.

Inside sales force Salespeople who conduct business from their offices via telephone, the Internet, or visits from prospective buyers.

Institutional market Schools, hospitals, nursing homes, prisons, and other institutions that provide goods and services to people in their care.

Integrated logistics management The logistics concept that emphasizes teamwork, both inside the company and among all the marketing channel organizations, to maximize the performance of the entire distribution system.

Integrated marketing communications (IMC) Carefully integrating and coordinating the company's many communications channels to deliver a clear, consistent, and compelling message about the organization and its products.

Intensive distribution Stocking the product in as many outlets as possible.

Interactive marketing Training service employees is the fine art of interacting with customers to satisfy their needs.

Intermarket segmentation Forming segments of consumers who have similar needs and buying behavior even though they are located in different countries.

Intermodal transportation Combining two or more modes of transportation.

Internal databases Electronic collections of consumer and market information obtained from data sources within the company network.

Internal marketing Orienting and motivating customer-contact employees and the supporting service people to work as a team to provide customer satisfaction.

Internet A vast public web of computer networks that connects users of all types all around the world to one another and to an amazingly large information repository.

Introduction stage The product life-cycle stage in which the new product is first distributed and made available for purchase.

Joint ownership A joint venture in which a company joins investors in a foreign market to create a local business in which the company shares joint ownership and control.

Joint venturing Entering foreign markets by joining with foreign companies to produce or market a product or service.

Learning Changes in an individual's behavior arising from experience.

Licensing A method of entering a foreign market in which the company enters into an agreement with a licensee in the foreign market.

Lifestyle A person's pattern of living as expressed in his or her activities, interests, and opinions.

Line extension Extending an existing brand name to new forms, colors, sizes, ingredients, or flavors of an existing product category.

Local marketing Tailoring brands and promotions to the needs and wants of local customer groups—cities, neighborhoods, and even specific stores.

Macroenvironment The larger societal forces that affect the microenvironment—demographic, economic, natural, technological, political, and cultural forces.

Madison & Vine A term that has come to represent the merging of advertising and entertainment in an effort to break through the clutter and create new avenues for reaching consumers with more engaging messages.

Management contracting A joint venture in which the domestic firm supplies the management know-how to a foreign company that supplies the capital.

Manufacturers' sales branches and offices Wholesaling by sellers or buyers themselves rather than through independent wholesalers.

Market The set of all actual and potential buyers of a product or service.

Market challenger A runner-up firm that is fighting hard to increase its market share in an industry.

Market development A strategy for company growth by identifying and developing new market segments for current company products.

Market follower A runner-up firm that wants to hold its share in an industry without rocking the boat.

Market leader The firm in an industry with the largest market share.

Market nicher A firm that serves small segments that the other firms in an industry overlook or ignore.

Market offering Some combination of products, services, information, or experiences offered to a market to satisfy a need or want.

Market penetration A strategy for company growth by increasing sales of current products to current market segments without changing the product.

Market segment A group of consumers who respond in a similar way to a given set of marketing efforts.

Market segmentation Dividing a market into smaller groups with distinct needs, characteristics, or behaviors who might require separate products or marketing mixes.

Market targeting The process of evaluating each market segment's attractiveness and selecting one or more segments to enter.

Market targeting (or targeting) The process of evaluating each market segment's attractiveness and selecting one or more segments to enter.

Market-centered company A company that pays balanced attention to both customers and competitors in designing its marketing strategies.

Marketing The process by which companies create value for customers and build strong customer relationships in order to capture value from customers in return.

Marketing audit A comprehensive, systematic, independent, and periodic examination of a company's environment, objectives, strategies, and activities to determine problem areas and opportunities and to recommend a plan of action to improve the company's marketing performance.

Marketing channel (or distribution channel) A set of interdependent organizations that help make a product or service available for use or consumption by the consumer or business user.

Marketing concept The marketing management philosophy that achieving organizational goals depends on knowing the needs and wants of target markets and delivering the desired satisfactions better than competitors do.

Marketing control The process of measuring and evaluating the results of marketing strategies and plans and taking corrective action to ensure that objectives are achieved.

Marketing environment The actors and forces outside marketing that affect marketing management's ability to build and maintain successful relationships with target customers.

Marketing implementation The process that turns marketing strategies and plans into marketing actions in order to accomplish strategic marketing objectives.

Marketing information system (MIS) People, equipment, and procedures to gather, sort, analyze, evaluate, and distribute needed, timely, and accurate information to marketing decision makers.

Marketing intermediaries Firms that help the company to promote, sell, and distribute its goods to final buyers. They include resellers, physical distribution firms, marketing service agencies, and financial intermediaries.

Marketing logistics (physical distribution) The tasks involved in planning, implementing, and controlling the physical flow of materials, final goods, and related information from points of origin to points of consumption to meet customer requirements at a profit.

Marketing management The art and science of choosing target markets and building profitable relationships with them.

Marketing mix The set of controllable tactical marketing tools—product, price, place, and promotion—that the firm blends to produce the response it wants in the target market.

Marketing myopia The mistake of paying more attention to the specific products a company offers than to the benefits and experiences derived from these products.

Marketing research The systematic design, collection, analysis, and reporting of data relevant to a specific marketing situation facing an organization.

Marketing strategy The marketing logic by which the business unit hopes to achieve its marketing objectives.

Marketing strategy development Designing an initial marketing strategy for a new product based on the product concept.

Marketing Web site A Web site that engages consumers in interactions that will move them closer to a direct purchase or other marketing income.

Market-penetration pricing Setting a low price for a new product to attract a large number of buyers and a large market share.

Market-skimming pricing (or price skimming) Setting a high price for a new product to skim maximum revenues layer by layer from the segments willing to pay the high price; the company makes fewer but more profitable sales.

Maturity stage The product life-cycle stage in which sales growth slows or levels off.

Merchant wholesaler Independently owned business that takes title to the merchandise it handles.

Microenvironment The actors close to the company that affect its ability to serve its customers—the company, suppliers, marketing intermediaries, customer markets, competitors, and publics.

Micromarketing The practice of tailoring products and marketing programs to the needs and wants of specific individuals and local customer groups. It includes local marketing and individual marketing.

Millennials (or Generation Y) The children of the baby boomers, born between 1977 and 2000.

Mission statement A statement of the organization's purpose—what it wants to accomplish in the larger environment.

Modified rebuy A business buying situation in which the buyer wants to modify product specifications, prices, terms, or suppliers.

Motive (or drive) A need that is sufficiently pressing to direct the person to seek satisfaction of the need.

Multichannel distribution system A distribution system in which a single firm sets up two or more marketing channels to reach one or more customer segments.

Natural environment Natural resources that are needed as inputs by marketers or that are affected by marketing activities.

Need recognition The first stage of the buyer decision process, in which the consumer recognizes a problem or need.

Needs States of felt deprivation.

New product A good, service, or idea that is perceived by some potential customers as new.

New-product development The development of original products, product improvements, product modifications, and new brands through the firm's own R&D efforts.

New-task situation A business buying situation in which the buyer purchases a product or service for the first time.

Non-personal communication channels Media that carry messages without personal contact or feedback, including major media, atmospheres, and events.

Objective-and-task method Developing the promotion budget by (1) defining specific objectives; (2) determining the tasks that must be performed to achieve these objectives; and (3) estimating the costs of performing these tasks. The sum of these costs is the proposed promotion budget.

Observational research The gathering of primary data by observing relevant people, actions, and situations.

Occasion segmentation Dividing a market into groups according to occasions when buyers get the idea to buy, actually make their purchase, or use the purchased item.

Off-price retailer Retailer that buys at less-than-regular wholesale prices and sells at less than retail. Examples are factory outlets, independents, and warehouse clubs.

Online advertising Advertising that appears while consumers are surfing the Web, including display ads (banners, interstitials, pop-ups), search-related ads, online classifieds, and other forms.

Online database Computerized collection of information available from online commercial sources or via the Internet.

Online focus groups Gathering a small group of people online with a trained moderator to chat about a product, service, or organizations and gain qualitative insights about consumer attitudes and behavior.

Online marketing Efforts to market products and services, as well as build customer relationships over the Internet.

Online marketing research Collecting primary data through Internet surveys and online focus groups.

Online social networks Online social communities—blogs, social networking Web sites, or even virtual worlds—where people socialize or exchange information and opinions.

Opinion leader Person within a reference group who because of special skills, knowledge, personality, or other characteristics, exerts social influence on others.

Optional-product pricing The pricing of optional or accessory products along with a main product.

Order-routine specification The stage of the business buying process in which the buyer writes the final order with the chosen supplier(s), listing the technical specifications, quantity needed, expected time of delivery, return policies, and warranties.

Outside sales force (or field sales force) Salespeople who travel to call on customers in the field.

Packaging The activities of designing and producing the container or wrapper for a product.

Partner relationship management Working closely with partners in other company departments and outside the company to jointly bring greater value to customers.

Percentage-of-sales method Setting the promotion budget at a certain percentage of current or forecasted sales or as a percentage of the unit sales price.

Perception The process by which people select, organize, and interpret information to form a meaningful picture of the world.

Performance review The stage of the business buying process in which the buyer assesses the performance of the supplier and decides to continue, modify, or drop the arrangement.

Personal communication channels Channels through which two or more people communicate directly with each other, including face to face, on the phone, through mail or email, or even through an Internet "chat."

Personal selling Personal presentation by the firm's sales force for the purpose of making sales and building customer relationships.

Personality The unique psychological characteristics that lead to relatively consistent and lasting responses to one's own environment.

Pleasing products Products that give high immediate satisfaction but may hurt consumers in the long run.

Political environment Laws, government agencies, and pressure groups that influence and limit various organizations and individuals in a given society.

Portfolio analysis The process by which management evaluates the products and businesses that make up the company.

Positioning Arranging for a product to occupy a clear, distinctive, and desirable place relative to competing products in the minds of target consumers.

Positioning statement A statement that summarizes company or brand positioning—it takes the form: To (target segment and need) our (brand) is (concept) that (point of difference).

Post-purchase behavior The stage of the buyer decision process in which the consumers take further action after purchase, based on their satisfaction or dissatisfaction.

Preapproach A salesperson learns as much as possible about a prospective customer before making a sales call.

Presentation The step in the selling process in which the salesperson tells the "product story" to the buyer, highlighting customer benefits.

Price The amount of money charged for a product or service; the sum of the values that consumers exchange for the benefits of having or using the product or service.

Price elasticity A measure of the sensitivity of demand to changes in price.

Primary data Information collected for the specific purpose at hand.

Private brand (or store brand) A brand created and owned by a reseller of a product or service.

Problem recognition The first stage of the business buying process in which someone in the company recognizes a problem or need that can be met by acquiring a good or a service.

Product Anything that can be offered to a market for attention, acquisition, use, or consumption that might satisfy a want or need.

Product adaptation Adapting a product to meet local conditions or wants in foreign markets.

Product bundle pricing Combining several products and offering the bundle at a reduced price.

Product concept The idea that consumers will favor products that offer the most quality, performance, and features, and that the organization should therefore devote its energy to making continuous product improvements.

Product concept A detailed version of the new-product idea stated in meaningful consumer terms.

Product development A strategy for company growth by offering modified or new products to current market segments.

Product development Developing the product concept into a physical product to ensure that the product idea can be turned into a workable market offering.

Product invention Creating new products or services for foreign markets.

Product life cycle (PLC) The course of a product's sales and profits over its lifetime. It involves five distinct stages: product development, introduction, growth, maturity, and decline.

Product line A group of products that are closely related because they function in a similar manner, are sold to the same customer groups, are marketed through the same types of outlets, or fall within given price ranges.

Product line pricing Setting the price steps between various products in a product line based on cost differences between the products, customer evaluations of different features, and competitors' prices.

Product mix (or product portfolio) The set of all product lines and items that a particular seller offers for sale.

Product position The way the product is defined by consumers on important attributes—the place the product occupies in consumers' minds relative to competing products.

Product quality The characteristics of a product or service that bear on its ability to satisfy stated or implied customer needs.

Product sales force structure A sales force organization under which salespeople specialize in selling only a portion of the company's products or lines.

Product specification The stage of the business buying process in which the buying organization decides on and specifies the best technical product characteristics for a needed item.

Product/market expansion grid A portfolio-planning tool for identifying company growth opportunities through market penetration, market development, product development, or diversification.

Production concept The idea that consumers will favor products that are available and highly affordable, and that the organization should therefore focus on improving production and distribution efficiency.

Promotion mix (or marketing communications mix) The specific blend of advertising, sales promotion, public relations, personal selling, and direct-marketing tools that the company uses to persuasively communicate customer value and build customer relationships.

Promotional pricing Temporarily pricing products below the list price, and sometimes even below cost, to increase short-run sales.

Proposal solicitation The stage of the business buying process in which the buyer invites qualified suppliers to submit proposals.

Prospecting A salesperson or company identifies qualified potential customers.

Psychographic segmentation Dividing a market into different groups based on social class, lifestyle, or personality characteristics.

Psychological pricing A pricing approach that considers the psychology of prices and not simply the economics; the price is used to say something about the product.

Public Any group that has an actual or potential interest in or impact on an organization's ability to achieve its objectives.

Public relations Building good relations with the company's various publics by obtaining favorable publicity, building up a good "corporate image," and handling or heading off unfavorable rumors, stories, and events.

Public relations (PR) Building good relations with the company's various publics by obtaining favorable publicity, building a good corporate image, and handling or heading off unfavorable rumors, stories, and events.

Pull strategy A promotion strategy that calls for spending a lot on advertising and consumer promotion to induce final consumers to buy the product. If the pull strategy is effective, consumers will then demand the product from channel members, who will in turn demand it from producers.

Purchase decision The buyer's decision about which brand to purchase.

Push strategy A promotion strategy that calls for using the sales force and trade promotion to push the product through channels. The producer promotes the product to channel members to induce them to carry the product and to promote it to final consumers.

Reference prices Prices that buyers carry in their minds and refer to when they look at a given product.

Retailer A business whose sales come primarily from retailing.

Retailing All activities involved in selling goods or services directly to final consumers for their personal, non-business use.

Return on advertising investment The net return on advertising investment divided by the costs of the advertising investment.

Return on marketing investment (or marketing ROI) The net return from a marketing investment divided by the costs of the marketing investment.

Sales 2.0 The merging of innovative sales practices with Web 2.0 technologies to improve sales force effectiveness and efficiency.

Sales force management Analysis, planning, implementation, and control of sales force activities.

Sales promotion Short-term incentives to encourage the purchase or sale of a product or service.

Sales promotion Short-term incentives to encourage the purchase or sale of a product or service.

Sales quota A standard that states the amount a salesperson should sell and how sales should be divided among the company's products.

Salesperson An individual representing a company to customers by performing one or more of the following activities: prospecting, communicating, selling, servicing, information gathering, and relationship building.

Salutary products Products that have low appeal but may benefit consumers in the long run.

Sample A segment of the population selected for marketing research to represent the population as a whole.

Secondary data Information that already exists somewhere, having been collected for another purpose.

Segmented pricing Selling a product or service at two or more prices, where the difference in prices is not based on differences in costs.

Selective distribution The use of more than one, but fewer than all, of the intermediaries who are willing to carry the company's products.

Selling concept The idea that consumers will not buy enough of the firm's products unless it undertakes a large-scale selling and promotion effort.

Selling process The steps that salespeople follow when selling, which include prospecting and qualifying, preapproach, approach, presentation and demonstration, handling objections, closing, and follow-up.

Sense-of-mission marketing A principle of sustainable marketing that holds that a company should define its mission in broad social terms rather than narrow product terms.

Service Any activity or benefit that one party can offer to another that is essentially intangible and does not result in the ownership of anything.

Service inseparability Services are produced and consumed at the same time and cannot be separated from their providers.

Service intangibility Services cannot be seen, tasted, felt, heard, or smelled before they are bought.

Service perishability Services cannot be stored for later sale or use.

Service variability The quality of services may vary greatly, depending on who provides them and when, where, and how.

Service-profit chain The chain that links service firm profits with employee and customer satisfaction.

Share of customer The portion of the customer's purchasing that a company gets in its product categories.

Shopping center A group of retail businesses planned, developed, owned, and managed as a unit.

Shopping product Consumer product that the customer, in the process of selection and purchase, characteristically compares on bases such as suitability, quality, price, and style.

Social class Relatively permanent and ordered divisions in a society whose members share similar values, interests, and behaviors.

Social marketing The use of commercial marketing concepts and tools in programs designed to influence individuals' behavior to improve their well-being and that of society.

Societal marketing A principle of sustainable marketing that holds that a company should make marketing decisions by considering consumers' wants, the company's requirements, consumers' long-run interests, and society's long-run interests.

Societal marketing concept A principle of enlightened marketing that holds that a company should make good marketing decisions by considering consumers' wants, the company's requirements, consumers' long-run interests, and society's long-run interests.

Spam Unsolicited, unwanted commercial email messages.

Specialty product Consumer product with unique characteristics or brand identification for which a significant group of buyers is willing to make a special purchase effort.

Specialty store A retail store that carries a narrow product line with a deep assortment within that line.

Standardized global marketing An international marketing strategy that basically uses the same marketing strategy and mix in all of the company's international markets.

Straight product extension Marketing a product in a foreign market without any change.

Straight rebuy A business buying situation in which the buyer routinely reorders something without any modifications.

Strategic group A group of firms in an industry following the same or a similar strategy.

Strategic planning The process of developing and maintaining a strategic fit between the organization's goals and capabilities and its changing market opportunities.

Style A basic and distinctive mode of expression.

Subculture A group of people with shared value systems based on common life experiences and situations.

Supermarket Large, low-cost, low-margin, high-volume, self-service store that carries a wide variety of grocery and household products.

Superstore A store much larger than a regular supermarket that offers a large assortment of routinely purchased food products, non-food items, and services.

Supplier development Systematic developments of networks of supplier-partners to ensure an appropriate and dependable supply of products and materials for use in making products or reselling them to others.

Supplier search The stage of the business buying process in which the buyer tries to find the best vendors.

Supplier selection The stage of the business buying process in which the buyer reviews proposals and selects a supplier or suppliers.

Supply chain management Managing upstream and downstream value-added flows of materials, final goods, and related information among suppliers, the company, resellers, and final consumers.

Survey research Gathering primary data by asking people questions about their knowledge, attitudes, preferences, and buying behavior.

Sustainable marketing Socially and environmentally responsible marketing that meets the present needs of consumers and businesses while also preserving or enhancing the ability of future generations to meet their needs.

SWOT analysis An overall evaluation of the company's strengths (S), weaknesses (W), opportunities (O), and threats (T).

Systems selling (or solutions selling) Buying a packaged solution to a problem from a single seller, thus avoiding all the separate decisions involved in a complex buying situation.

Target costing Pricing that starts with an ideal selling price and then targets costs that will ensure that the price is met.

Target market A set of buyers sharing common needs or characteristics that the company decides to serve.

Team selling Using teams of people from sales, marketing, engineering, finance, technical support, and even upper management to service large, complex accounts.

Team-based new-product development An approach to developing new products in which various company departments work closely together, overlapping the steps in the product development process to save time and increase effectiveness.

Technological environment Forces that create new technologies, creating new product and market opportunities.

Telephone marketing Using the telephone to sell directly to customers.

Territorial sales force structure A sales force organization that assigns each salesperson to an exclusive geographic territory in which that salesperson sells the company's full line.

Test marketing The stage of new-product development in which the product and its proposed marketing program are tested in more realistic market settings.

Third-party logistics (3PL) provider An independent logistics provider that performs any or all of the functions required to get a client's product to market.

Total costs The sum of the fixed and variable costs for any given level of production.

Trade promotion tools Sales promotion tools used to persuade resellers to carry a brand, give it shelf space, promote it in advertising, and push it to consumers.

Undifferentiated (or mass) marketing A market-coverage strategy in which a firm decides to ignore market segment differences and go after the whole market with one offer.

Uniform-delivered pricing A geographical pricing strategy in which the company charges the same price plus freight to all customers, regardless of their location.

Unsought product Consumer product that the consumer either does not know about or knows about but does not normally think of buying.

Users Members of the buying organization who will actually use the purchased product or service.

Value analysis An approach to cost reduction in which components are studied carefully to determine if they can be redesigned, standardized, or made by less costly methods of production.

Value chain The series of departments that carry out value-creating activities to design, produce, market, deliver, and support a firm's products.

Value delivery network The network made up of the company, suppliers, distributors, and ultimately customers who "partner" with each other to improve the performance of the entire system.

Value proposition The full positioning of a brand—the full mix of benefits upon which it is positioned.

Value-added pricing Attaching value-added features and services to differentiate a company's offers and to support charging higher prices.

Value-delivery network The network made up of the company, suppliers, distributors, and ultimately customers who "partner" with each other to improve the performance of the entire system.

Variable costs Costs that vary directly with the level of production.

Variety-seeking buying behavior Consumer buying behavior in situations characterized by low consumer involvement but significant perceived brand differences.

Vertical marketing system (VMS) A distribution channel structure in which producers, wholesalers, and retailers act as a unified system. One channel member owns the others, has contracts with them, or has so much power that they all cooperate.

Viral marketing The Internet version of word-of-mouth marketing—Web sites, videos, email messages, or other marketing events that are so infectious that customers will want to pass them along to friends.

Wants The form human needs take as they are shaped by culture and individual personality.

Warehouse club Off-price retailer that sells a limited selection of brand name grocery items, applicances, clothing, and a hodgepodge of other goods at deep discounts to members who pay annual membership fees.

Wheel-of-retailing concept A concept of retailing that states that new types of retailers usually begin as low-margin, low-price, low-status operations but later evolve into higher-priced, higher-service operations, eventually becoming like the conventional retailers they replaced.

Whole-channel view Designing international channels that take into account the entire global supply chain and marketing channel, forging an effective global value delivery network.

Wholesaler A firm engaged primarily in wholesaling activities.

Wholesaling All activities involved in selling goods and services to those buying for resale or business use.

Word-of-mouth influence Personal communication about a product between target buyers and neighbors, friends, family members, and associates.

Zone pricing A geographical pricing strategy in which the company sets up two or more zones. All customers within a zone pay the same total price; the more distant the zone, the higher the price.

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