

## Marketing



# Marketing

*KDONAHUE*



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# Introduction

The study of marketing is an extremely exciting and ever-changing discipline in today's world. It is fast-paced and strategic. It is innovative and challenging. It is very misunderstood.

If you ask most people what marketing is, their mind goes immediately to promotion or sales. However, marketing is much more as you will learn throughout the pages of this book. Marketing provides clarity of direction to decision makers, it explores the possibilities for growth and development, and it represents the needs, perceptions, and preferences of the target market to the organization.

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# CHAPTER I: INTRODUCTION TO MARKETING

## Learning Objectives

After reading chapter 1, students should be able to

- Define and explain the terms 'marketing' and 'marketing concept'
- Demonstrate an understanding of the historical development and progression of marketing in the business industry
- Provide an explanation of the benefits and value of studying marketing



# 1.1 Introduction to Marketing

Have you ever participated in, or observed, a word association exercise? A word is stated, and the participant is supposed to say the first thing that comes to mind. Try it. What comes to mind when you hear 'dog'? 'home'? 'snack'? 'marketing'? While your answers might have varied quite a bit for the first three words, it is highly likely that for 'marketing' your answer was 'sales', 'promotion', or 'advertising'. That is completely understandable! As consumers, we are overwhelmed by the number of promotions aimed at us. But promotions are a small part of marketing: they are just the most visible part. In this course, you will learn the role marketing plays in business and in society, the specific functions marketers perform, and the skills necessary to implement an effective marketing strategy. To avoid natural biases and preferences on the part of authors, this text will incorporate writings and examples from multiple authors and sources. As we start this marketing journey, try to suspend what you think you know about marketing and any judgement you may have on the discipline. Open your mind, see the possibilities.

## 1.2 Marketing: An Historical Perspective

To understand what marketing is, and what it is not, we are going so take an historical look at business and how it has evolved over the last century and a half. As we discuss the historical perspectives below, realize that businesses in developed countries tend to have the same perspectives at the same time. For example, during the time known as the Production Era, most of the industries operating during that time had a production orientation. However, individual organizations and even individual people might have had a different view or orientation. Thus it is important to differentiate between an era, which is a specific period of time, and an orientation, which is a way of thinking and approaching decision making. In the following discussion you will learn what the different orientations are and the implications of those orientations as well as the era when those orientations were most prevalent. You will also understand the vital role marketing plays in business. Marketing developed to address the disconnect between what businesses wanted to offer and what customers wanted to buy.

The evolution from production-oriented organizations to marketing-oriented organizations was driven by a shift toward a marketplace that catered to meeting customer wants and needs rather than strictly delivering product features and functionality. In today's business world, it can be argued that customer desires, concerns, and opinions, rather than industry profits, are the driving force behind many strategic business decisions.

## Production Orientation

Until the 1950s, organizations relied on the assumption that their businesses would be profitable so long as they produced high quality products that were durable and worked well. This business model —known as a production orientation — soon became outdated as the marketplace turned into an increasingly crowded and global one.

### *Economies of Scale in Production-Oriented Organizations*

During the Industrial Age of the 18th and 19th centuries, production-oriented companies thrived due to both the scarcity and high demand for mass-produced, high quality goods and services. Industrial firms focused on production orientation models that exploited economies of scale to reach maximum efficiency at the lowest cost.

Economies of scale is a concept that states that by driving efficiency, companies (particularly production-oriented organizations) will realize significant cost advantages as they expand operations. For example, companies that focus on increasing economies of scale will see reductions in unit cost as the size of facilities and the usage levels of other inputs increase. In theory, such organizations can ramp up production until the minimum efficient scale is reached. Some common sources of economies of scale include:

- Purchasing –bulk buying of materials through long-term contracts
- Managerial – increasing the specialization of managers
- Financial – obtaining lower-interest charges when borrowing from banks and having access to a greater range of financial instruments

- Marketing – spreading the cost of advertising over a greater range of output in media markets
- Technological – taking advantage of returns to scale in the production function

This orientation assumes as more products are produced, they will be purchased. By the end of the 1940's, competition grew in most industries to the point that this assumption was no longer valid. As competition increased, options available increased, which meant companies did not sell products as easily as in the past. A new approach had to be considered.

## Sales Orientation

Approaching marketing with a selling orientation was popular for companies in the 1950s and 1960s. Up to this point, a growing population and lack of significant competition combined to create an environment in which production and product orientations could lead to success. However, after the untapped demand caused by the second World War was saturated in the 1950s, it became obvious that products were not selling as easily as they had been. The answer was to concentrate on selling. The 1950s and 1960s are known as the sales era, as the guiding philosophy of business at the time was the sales orientation. As opposed to a production orientation, a sales orientation focuses primarily on the selling and promotion of a particular product.

As we learned in the previous discussion on production orientation, companies started having difficulty selling all the product they produced due to the increase in competition and product options for the buyer. Since their products were not selling as easily, producers had to deal with the unsold product, or inventory. Additional storage to house the inventory is needed,

which is an added expense. How can producers move this inventory they now have to store? The focus changed to the selling and promotion of a particular product, instead of just producing the product. Emphasis is not placed on determining new consumer desires rather on simply selling an already existing product and using promotion techniques to attain the highest sales possible. This mindset of encouraging potential buyers to buy existing products is known as a selling orientation.

A sales orientation tends to have a short-term focus as the goal is selling already produced product. A short-term focus led some organizations to make unethical decisions in terms of promotions, pressuring customers, and making promises that could not be kept. During this time, most people viewed salespeople in a negative light because of the pressure and false promises. There are roots of truth to the negative stereotype of salespeople. As we will learn soon that stereotype does not apply to most salespeople and sales efforts today.

This short-term focus did not lead to long-term profitability, stability, or innovation. In addition, society was changing. The amount of competition being realized at that point was unprecedented, and the scale of consumerism was rising. For the first time, a more significant effort had to be made to understand the desires of potential customers.

These concerns led to the realization that a better way had to be found. That better way was marketing.



*Courtesy of Columbus Board of Realtors*

## **Marketing Orientation**

Marketing orientation is a business model that focuses on delivering products designed according to customer desires, needs, and requirements, in addition to product functionality and production efficiency (i.e., production orientation). As stated by Bernard J. Jaworski and Ajay K. Kohli in the “Journal of Marketing”, marketing orientation is “The organization-wide generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence across departments and organization wide responsiveness to it.”

### *The Shift Toward Marketing Orientation*

Beginning in the 1970s, Harvard Professor Theodore Levitt and other academics argued that the sales orientation model was ill-equipped to deliver products tailored to customer wants and needs. Instead of manufacturing products for the sole purpose of

generating profit, they argued for businesses to shift their strategy toward developing products based on customers' desires, insights, and opinions. Using this customer intelligence, companies could produce products that supported their overall business strategy, competed effectively in an increasingly global and competitive market, and delivered solutions for current and future customer needs.

With the widespread adoption of Internet technology, e-commerce, and social media technologies, the customer has clearly become the driving force behind contemporary business strategies. Marketing-oriented companies revolve around internal business processes that gather, synthesize, and package market intelligence into integrated marketing communications programs (i.e., advertising campaign, new product launch, promotional offer, etc.). Furthermore, it involves a brand planning its marketing activities around a singular concept — the customer — and supplying products to suit diverse tastes.

Competitive analysis is also a significant component of market orientation. Generally, companies gather this information using market research, consumer surveys, and focus groups with prospective customers to identify needs, preferences, as well as competitor strengths and weaknesses. Since its introduction, marketing orientation has been reformulated and repackaged under numerous names including customer orientation, marketing philosophy, and customer intimacy.

A marketing-oriented business starts with the customer, finds out what they want, and then develops and produces a product to meet that desire. The process starts with the potential customer through research.

**Focus on the Customer:** One way for a company to focus on customers' desires is to have a database of all its customers. Today, the information garnered about individual customers and about segments of customers, allow more customization of an organization's offerings.

View	Product Description	Company	Shipper	Arrival Date	Gross Weight (LB)	Quantity	Foreign Port	US Port	Vessel Name	Country of Origin
🔍	SOCKS LICENSOR SAMPLE	BOYWORLD MERCHANDISING INC	HERFOTOP H&M S&P & EX	2015-01-22	658	40 CTN	SHANGHAI	LONG BEACH CALIFORNIA	MSC CHARLESTON	CHINA
🔍	SOCKS WRESTBAND	BOYWORLD MERCHANDISING INC	HERFOTOP H&M S&P & EX	2015-01-22	289	20 CTN	SHANGHAI	LONG BEACH CALIFORNIA	MSC CHARLESTON	CHINA
🔍	SOCKS	GOLDEN GATE HOSEERY INC	HAIFAN GOLDEN GATE S	2015-01-22	19,254	2,188 CTN	SHANGHAI	LONG BEACH CALIFORNIA	MSC CHARLESTON	CHINA
🔍	SOCKS	GOLDEN GATE HOSEERY INC	ZHEJIANG YINJING WPAF	2015-01-22	16,288	1,851 CTN	SHANGHAI	LONG BEACH CALIFORNIA	MSC CHARLESTON	CHINA
🔍	SOCKS	WOLLEBEN HOSEERY LLC 5310 NW ST	RISE FASHION INTERNATIONAL	2015-01-22	21,870	1,582 CTN	SHANGHAI	LONG BEACH CALIFORNIA	MSC CHARLESTON	CHINA
🔍	SOCKS - KA CTNS	GLOVEY TRADING	SUPERTEX TEXTILE JOINT	2015-01-21	2,534	84 CTN	KAOHSIUNG	LONG BEACH CALIFORNIA	OOCL MINGBO	CHINA TAIWAN
🔍	SOCKS	KEPERS INTERNATIONAL	DONGYU INTERNATIONAL	2015-01-21	6,050	500 CTN	SHANGHAI	LONG BEACH CALIFORNIA	HAULIN YANTAI	CHINA
🔍	SOCKS SOCKS SOCKS SOCKS SOCKS	AGRON INC	CHINA JIANSHU INTERNA	2015-01-21	46,500	2,400 CTN	SHANGHAI	LONG BEACH CALIFORNIA	HAULIN YANTAI	CHINA
🔍	SOCKS SOLO MICROFIBER TIGHTS TEXTI	SOINNET INC	ZHEJIANG DONGJUN KNITTE	2015-01-21	14,987	1,526 CTN	SHANGHAI	LONG BEACH CALIFORNIA	HAULIN YANTAI	CHINA
🔍	SOCKS LABEL	TO THE ORDER OF VEST HOSEERY OF	ZHEJIANG DONGJUN KNITTE	2015-01-18	23,302	600 CTN	SHANGHAI	LONG BEACH CALIFORNIA	HAULIN AQUA	CHINA
🔍	SOCKS 100 ACRYLIC WOVEN CAPS DESI	ACCESSORY EXCHANGE LLC	CENTURY DISTRIBUTION I	2015-01-18	79,418	4,182 CTN	SHANGHAI	LONG BEACH CALIFORNIA	BROOKLYN BRIDGE	CHINA
🔍	SOCKS	ACHIE HICCRARY CORP	ZHEJIANG WALT TECHNIC	2015-01-17	16,280	944 CTN	SHANGHAI	LONG BEACH CALIFORNIA	BALTIMORE BRIDGE	CHINA
🔍	SOCKS GLOVES, HOODES, HOODES VES	DIVERSICO SUPPLY USA INC	HYPER SPORTING GOOD	2015-01-14	858	60 CTN	YANTAI	LONG BEACH CALIFORNIA	OOCL SOUTHAMPTON	CHINA
🔍	SOCKS	DREAMER ENTERPRISES INC	ZHEJIANG FOREIGN TRADE CI	2015-01-14	23,153	1,817 CTN	MINGPO	LONG BEACH CALIFORNIA	HAULIN AMSTERDAM	CHINA
🔍	SOCKS SHOIVER TOWEL, CON-PURE BE	DREAMER ENTERPRISES INC	MINGPO HAWAII WPAF AV	2015-01-14	13,287	551 CTN	MINGPO	LONG BEACH CALIFORNIA	HAULIN AMSTERDAM	CHINA

Courtesy of Flickr

## Marketing Orientation Components

Components which define a marketing orientated organization include:

1. Customer orientation
2. Goal orientation (typically profitability)
3. Integrated coordination

As stated, the most important focus in a market-orientated business is the customer. Like a production-oriented company, one of the primary goals of marketing-oriented or customer-oriented businesses is long-term profitability. Nevertheless, organizations that follow a marketing orientation model realize that delivering superior customer value through product innovation, as well as products and services tailored to customer needs, directly correlates with generating revenue. When a company adopts the three components listed above, the company is said to have adopted the **Marketing Concept**. It should be noted that all organizations, including non-profits, can adopt the marketing concept.

## Holistic Orientation

The history of marketing has seen a fair amount of evolution over time, particularly with the integration of technology and big data. The origins of marketing are much simpler than modern marketing, revolving primarily around managing relationships and personal selling. Marketing tactics and methods have changed over time, spanning from simple personal selling to advertising, promotions, affiliate advertising, social media, PR, branding, and market research to support each of these investments and initiatives.

Holistic marketing incorporates integrated marketing, relationship management, internal marketing, and social responsibility to build a unified and shared brand.

As globalization, mass production, and big data became prevalent across industries, marketing evolved to be more targeted and specific across many different potential channels. This resulted in marketing segmentation, or the strategic decisions to pursue specific groupings within the broader population of the market. Segmentation through target markets has been (and currently is) a powerful trend in marketing strategy and tactics.

This targeting and segmentation through broader market opportunities has substantial advantages and is a useful perspective for marketing managers to consider. However, holistic marketing assumes that segmentation is as much a threat as it is an opportunity. The prospect of ‘divide and conquer’ is potentially more expensive than uniting the market based on shared initiatives and needs. Holistic marketing unites the market on shared ideals and vision, creating an inclusive, relationship-oriented, and socially responsible strategy. This typically includes four perspectives:

1. **Relationship Marketing** – A large field (often referred to as retention), relationship marketing is the simple idea that retaining a customer is significantly cheaper than getting new ones. Relationship is about building a meaningful engagement

with current customers, not so much to make a sale but simply to ensure a continued relationship with the organization.

2. **Integrated Marketing** – Another substantial branch of marketing is referred to as integrated marketing communications. Integrated marketing focuses on aligning the messaging, communication, and brand image across a variety of channels, customer groups, stakeholders, and other communications. By having a consistent brand across the board, companies can build a sense of trust, reliability, and shared expectations when dealing with the firm.
3. **Internal Marketing** – Potentially viewed as a facet of integrated marketing, it is important to keep in mind that internal stakeholders such as employees require careful organizational brand management as well. Employees impact what the organization stands for (brand), and play an integral role in driving the organization towards its objectives, mission, and vision. Internal consistency of intention and vision is therefore a critical part of external consistency.
4. **Socially Responsible Marketing** – Finally, the modern holistic view of marketing considers some of the ethical criticisms of the past advertising eras (and with good reason). Organizations should stand for things that society values. Let's consider an example. An organization sells carpets and furniture. They realize the negative impact of their operations on the environment. This company decides to define their brand on perfect efficiency in terms of shipping, complete utilization of recycled goods, large donations to environmental research, and local sourcing. As a result, they build meaningful relationships with their consumers based on shared values, while cutting operating costs and capturing subsidies. This is a great utilization of holistic marketing.

While holistic marketing is an evolving field, the general concept is simple. Markets are full of people, and these people are often united on certain initiatives. By aligning the organization with the

people who work there and the people it serves, the organization's brand will evolve holistically across various channels, supported by operations that align with the vision of the customers. The Holistic Marketing era and orientation is also referred to as the Societal Marketing era /orientation or Value-based Marketing era/ orientation.

## The Historical Perspective in Summary

Orientation	Profit Driver	Western European Timeframe (loose)	Description
Production	Production methods	Until the 1950s	A firm focus scale to obtain rapidly changing
Sales	Selling methods	1950s and 1960s	A firm using an already established
Marketing	Needs of the customer	1970s – present	This is the modern products to customer desires, and
Holistic Marketing	Everything matters in marketing	21st century	This orientation is developing

## You Do It!



An interactive H5P element has been excluded from this version of the text. You can view it online here:

<https://iu.pressbooks.pub/mktgwip/?p=433#h5p-1>

# 1.3 Marketing Defined

Now that we understand how marketing came to become an important component of the economy, let us look at the definition of marketing and the marketing concept in more detail:

## Marketing

Marketing is defined by the American Marketing Association as “the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large[1].” If you read the definition closely, you see that there are four activities, or components, of marketing:

1. **Creating.** The process of collaborating with suppliers and customers to create offerings that have value.
2. **Communicating.** Broadly, describing those offerings, as well as learning from customers.
3. **Delivering.** Getting those offerings to the consumer in a way that optimizes value.
4. **Exchanging.** Trading value for those offerings.

The traditional way of viewing the components of marketing is via the Marketing Mix, more commonly known as the 4Ps:

1. **Product.** Goods and services (creating offerings).
2. **Promotion.** Communication.
3. **Place.** Getting the product to a point at which the customer can purchase it (delivering).
4. **Price.** The monetary amount charged for the product (exchanging).

None of these components can be delivered effectively without good marketing research. Marketing research is how a company understands their customers and the best ways to meet their needs.

## Marketing Concept

The marketing concept is the use of marketing data to focus on the needs and wants of customers to develop marketing strategies that not only satisfy the needs of the customers but also the accomplish the goals of the organization. An organization uses the marketing concept when it identifies the buyer's needs and then produces the goods, services, or ideas that will satisfy them (using the "right" principle). The marketing concept is oriented toward pleasing customers (be those customers organizations or consumers) by offering value. Specifically, the marketing concept involves the following:

- Focusing on the needs and wants of the customers so the organization can distinguish its product(s) from competitors' offerings. Products can be goods, services, or ideas.
- Integrating all the organization's activities, including production and promotion, to satisfy these wants and needs
- Achieving long-term goals for the organization by satisfying customer wants and needs legally and responsibly. Typically, profitability is one of these goals, but non-profits can effectively use the marketing concept as well as for-profit entities.

[1] American Marketing Association, "Definition of Marketing," <http://www.marketingpower.com/AboutAMA/> Pages/

DefinitionofMarketing.aspx?sq=definition+of+marketing (accessed December 3, 2009).

# 1.4 Benefits of Studying Marketing

Products do not, contrary to popular belief, sell themselves. Generally, the “build it and they will come” philosophy does not work. Good marketing educates customers so that they can find the products they want, make better choices about those products, and extract the most value from them. In this way, marketing helps facilitate exchanges between buyers and sellers for the mutual benefit of both parties.

Likewise, good social marketing provides people with information and helps them make healthier decisions for themselves and for others.

Of course, all business students should understand all functional areas of the firm, including marketing. There is more to marketing, however, than simply understanding its role in the business. Marketing has tremendous impact on society.

## Marketing Delivers Value

Not only does marketing deliver value to customers, but also that value translates into the value of the firm as it develops a reliable customer base and increases its sales and profitability. So when we say that marketing delivers value, marketing delivers value to both the customer and the company. Franklin D. Roosevelt, the U.S. president with perhaps the greatest influence on our economic system, once said, “If I were starting life over again, I am inclined to think that I would go into the advertising business in preference to almost any other. The general raising of the standards of modern civilization among all groups of people during the past half century

would have been impossible without the spreading of the knowledge of higher standards by means of advertising<sup>1</sup>.” Roosevelt referred to advertising, but advertising alone is insufficient for delivering value. Marketing finishes the job by ensuring that what is delivered is valuable.

## Marketing Benefits Society

Marketing benefits society in general by improving people's lives in two ways. First, as we mentioned, it facilitates trade. As you have learned, or will learn, in economics, being able to trade makes people's lives better. Otherwise people would not do it. (Imagine what an awful life you would lead if you had to live a Robinson Crusoe-like existence as did Tom Hanks's character in the movie *Castaway*.) In addition, because better marketing means more successful companies, jobs are created. This generates wealth for people, who are then able to make purchases, which, in turn, creates more jobs.

The second way in which marketing improves the quality of life is based on the value delivery function of marketing, but in a broader sense. When you add all the marketers together who are trying to deliver offerings of greater value to consumers and are effectively communicating that value, consumers can make more informed decisions about a wider array of choices. From an economic perspective, more choices and smarter consumers are indicative of a higher quality of life.

## Marketing Costs Money

Marketing can sometimes be the largest expense associated with producing a product. In the soft drink business, marketing expenses

account for about one-third of a product's price—about the same as the ingredients used to make the soft drink itself. At the bottling and retailing level, the expenses involved in marketing a drink to consumers like you and me make up the largest cost of the product.

Some people argue that society does not benefit from marketing when it represents such a huge chunk of a product's final price. In some cases, that argument is justified. Yet when marketing results in more informed consumers receiving a greater amount of value, then the cost is justified. Keep in mind that marketing is more than promotion. Marketing expenses include, but are not limited to, promotional expenses.

## Marketing Offers People Career Opportunities

Marketing is the interface between producers and consumers. In other words, it is the one function in the organization in which the entire business comes together. Being responsible for both making money for your company and delivering satisfaction to your customers makes marketing a great career. In addition, because marketing can be such an expensive part of a business and is so critical to its success, companies actively seek good marketing people. As you will learn, there is a great variety of jobs available in the marketing profession. These positions represent only a few of the opportunities available in marketing.

- **Marketing research / analytics.** Personnel in marketing research are responsible for studying markets and customers to understand what strategies or tactics might work best for firms.
- **Merchandising.** In retailing, merchandisers are responsible for developing strategies regarding what products wholesalers should carry to sell to retailers such as Target and Walmart.
- **Sales.** Salespeople meet with customers, determine their

needs, propose offerings, and make sure that the customer is satisfied. Sales departments can also include sales support teams who work on creating the offering.

- **Advertising.** Whether it is for an advertising agency or inside a company, some marketing personnel work on advertising. Television commercials and print ads are only part of the advertising mix. Many people who work in advertising spend all their time creating advertising for electronic media, such as Web sites and their pop-up ads, podcasts, and the like.
- **Product development.** People in product development are responsible for identifying and creating features that meet the needs of a firm's customers. They often work with engineers or other technical personnel to ensure that value is created.
- **Direct marketing.** Professionals in direct marketing communicate directly with customers about a company's product offerings via channels such as e-mail, chat lines, telephone, or direct mail.
- **Digital media.** Digital media professionals combine advertising, direct marketing, and other areas of marketing to communicate directly with customers via social media, the Web, and mobile media (including texts). They also work with statisticians to determine which consumers receive which message and with IT professionals to create the right look and feel of digital media.
- **Event marketing.** Some marketing personnel plan special events, orchestrating face-to-face conversations with potential and current customers in a special setting.
- **Nonprofit marketing.** Nonprofit marketers often do not get to do everything listed previously as nonprofits typically have smaller budgets. But their work is always very important as they try to change behaviors without having a product to sell.

## V. Criticisms of Marketing

Marketing is not without its critics. We already mentioned that one reason to study marketing is because it is costly, and business leaders need to understand the cost/benefit ratio of marketing to make wise investment decisions. Yet that cost is precisely why some people criticize marketing. If that money could be put into research and development of new products, perhaps the consumers would be better satisfied. Or, some critics argue, prices could be lowered. Marketing executives, though, are always on the lookout for less expensive ways to have the same performance, and do not intentionally waste money on marketing.

Another criticism is that marketing creates wants among consumers for products and services that are not really needed. For example, fashion marketing creates demand for high-dollar jeans when much less expensive jeans can fulfill the same basic function. Taken to the extreme, consumers may take on significant credit card debt to satisfy wants created by marketing, with serious negative consequences. When marketers target their messages carefully so an audience that can afford such products is the only group reached, such extreme consequences can be avoided.

## VI. You Do It!



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# CHAPTER 2: STRATEGIC PLANNING

## Learning Objectives

1. Understand the role marketers play in the strategic planning process
2. Be able to classify strategic business units into their proper portfolio quadrant and to understand the characteristics of those quadrants
3. Apply the appropriate growth strategy to achieve the organizational goals

## Introduction

Marketing is an important part of any organization. However, it is a support function meaning marketing's role is to help the organization achieve its goals. To understand marketing's functions, we must first understand its role. This chapter will examine the organization's strategic planning process, where marketing contributes to the process, and how marketing used the results of the process.

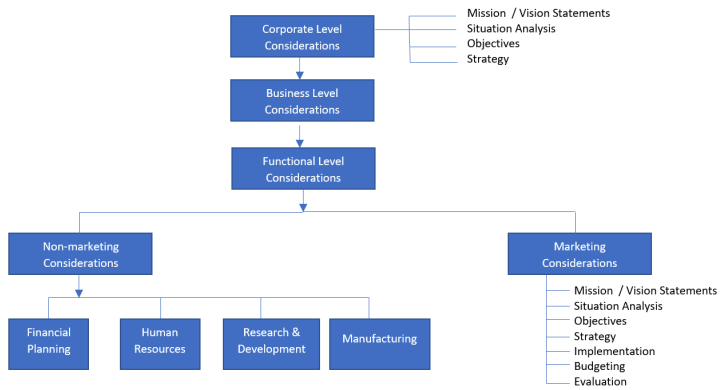


## 2.1 The Strategic Planning Process

The words ‘strategic planning’ get thrown around quite often but are not always used properly. Strategic planning is an important step for every organization that should be conducted on an annual basis. It is the process of evaluating the organization’s mission, vision, and strategies for the coming years. It emphasizes long-term planning: what should be done **now** to position our organization to achieve its long-term goals and mission? Proper investment in the present, can help pave the way for success in the future.

Strategic planning is done at the corporate level and involves executives from all areas of the business and, possibly, board members. In a small business, this may just be one person taking a day to research and strategize uninterrupted. In large organizations, this can be a multi-week session involving invited guests and intense debate.

While many areas, including marketing, contribute to this process, the end result also provides the functional areas, like marketing, the goals for their departments.



*Open the image in Microsoft Word.*

## 2.2 Marketing's Role in the Strategic Planning Process: Portfolio Analysis

The marketing department contributes to the strategic planning process in multiple ways. It provides a portfolio analysis (discussed below), and conducts an Environmental Scan to develop a SWOT analysis (discussed in next chapter). These two components of the strategic planning process provide the foundation for decision making and growth opportunities.

### I. Strategic Business Units and Portfolio Analysis

#### Strategic Business Units (SBUs)

As previously mentioned, strategic planning is a long-term process that helps an organization allocate its resources to take advantage of different opportunities. In addition to marketing plans, strategic planning may occur at different levels within an organization. For example, in large organizations top executives will develop strategic plans for the corporation. These are corporate-level plans. In addition, many large firms have different divisions, or businesses, called strategic business units. A strategic business unit (SBU) is a business or product line within an organization that 1) has its own competitors, customers, and 2) profit center for accounting purposes. A firm's SBUs may also have 3) their own mission

statement (purpose) and will generally develop strategic plans for themselves. These are called business-level plans. The different departments, or functions (accounting, finance, marketing, and so forth) within a company or SBU, might also develop strategic plans. For example, a company may develop a marketing plan or a financial plan, which are functional-level plans.

The figure below shows an example of different strategic planning levels that can exist within an organization's structure. The number of levels can vary, depending on the size and structure of an organization. Not every organization will have every level or have every type of plan.



# Portfolio Analysis

When a firm has multiple strategic business units, it must decide what the objectives and strategies for each SBU are and how to allocate resources among them. A group of businesses can be considered a portfolio, just as a collection of artwork or investments compose a portfolio. To evaluate each business, companies sometimes utilize what is called a portfolio planning approach. A portfolio planning approach involves analyzing a firm's entire collection of businesses relative to one another. One of the most widely used portfolio planning approaches was developed by the Boston Consulting Group (BCG).

Most businesses have limited resources and need to determine how to allocate those resources. Using the portfolio planning approach allows businesses to see various business segments and determine which ones should be grown, and which will be used to fund that growth. This allows a complement of business investments.

## The Boston Consulting Group Matrix

The Boston Consulting Group (BCG) matrix helps companies evaluate each of its strategic business units based on two factors: (1) the SBU's market growth rate (i.e., how fast the unit is growing compared to the industry in which it competes) and (2) the SBU's relative market share (i.e., how the unit's share of the market compares to the market share of its competitors). Because the BCG matrix assumes that profitability and market share are highly related, it is a useful approach for making business and investment decisions. However, the BCG matrix is subjective, and managers should also use their judgment and other planning approaches

before making decisions. Using the BCG matrix, managers can categorize their SBUs (products) into one of four categories.



## Stars

Everyone wants to be a star. A star is a product with high growth and a high market share. To maintain the growth of their star products, a company will need to invest money to keep the product competitive, improve distribution channels and to promote them. This expense can be quite large. So the question becomes, is this star profitable?

## Cash Cows

A cash cow is a product with low growth and a high market share. Cash cows have a large share of a shrinking market. Although they generate a lot of cash, they do not have a long-term future. Companies with cash cows need to manage them so that they continue to generate revenue to fund other products.

## Question Marks or Problem Children

Did you ever hear an adult say they did not know what to do with a child? The same question or problem arises when a product has a low share of a high-growth market. Managers classify these products as question marks or problem children. They must decide whether to invest in them and hope they become stars or gradually eliminate or sell them. Question marks are not profitable but have a chance of being turned into a star, with the right investment.

## Dogs

A dog is a product with low growth and low market share. Dogs do not make much money and do not have a promising future. There is a negative image that many have of dogs but, the truth is, they can be profitable and might be able to fund investment in a problem child either by their limited profits, by selling them off, or by discontinuing them thus freeing up resources.

The BCG matrix helps managers make resource allocation decisions. Depending on the product, a firm might decide on several different strategies. One strategy is to build market share for a

business or product, especially a product that might become a star. Many companies invest in question marks because market share is available for them to capture. The success sequence is often used to help question marks become stars. With the success sequence, money is taken from cash cows (if available) and invested into question marks in hopes of them becoming stars.

Holding market share means the company wants to keep the product's share at the same level. When a firm pursues this strategy, it only invests what it must to maintain the product's market share. When a company decides to harvest a product, the firm lowers its investment in it. The goal is to try to generate short-term profits from the product regardless of the long-term impact on its survival. If a company decides to divest a product, the firm drops or sells it. That is what Procter & Gamble did in 2008 when it sold its Folgers coffee brand to Smuckers. Proctor & Gamble also sold Jif peanut butter brand to Smuckers. Many dogs are divested, but companies may also divest products because they want to focus on other brands they have in their portfolio.

As competitors enter the market, technology advances, and consumer preferences change, the position of a company's products in the BCG matrix is also likely to change. The company must continually evaluate the situation and adjust its investments and product promotion strategies accordingly. The firm must also keep in mind that the BCG matrix is just one planning approach and that other variables can affect the success of products.

## II. You Try It!





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# 2.3 Marketing's Role in the Strategic Planning Process: Growth Strategies and the Marketing Plan

## I. Growth Strategies

Through the portfolio analysis, a company identifies which SBUs will receive the resources to grow and develop. The question then becomes, “How do we grow the SBU?” There are four basic growth strategies. Each strategy has multiple tactics available. The growth strategies are categorized by two factors: the target market (current or new) and the product (current or new).

	CURRENT TARGET MARKET	NEW TARGET MARKET
CURRENT PRODUCT OFFERING	Market Penetration	Market Development
NEW PRODUCT OFFERING	Product Development	Diversification

### Market Penetration

Market penetration strategies focus on increasing a firm’s sales of its existing products to its existing customers. Companies often offer consumers special promotions or low prices to increase their

usage and encourage them to buy products. When Frito-Lay distributes money-saving coupons to customers or offers them discounts to buy multiple packages of snacks, the company is utilizing a penetration strategy. The Campbell Soup Company gets consumers to buy more soup by providing easy recipes using their soup as an ingredient for cooking quick meals.

There are two ways to grow through market penetration:

1. increase sales to existing customers by encouraging them to purchase large quantities and/or more often
2. increase the number of customers in the target market

Both of these are primarily achieved through the use of effective promotional strategies with the goal of increased market share.

## Market Development

Market development strategies focus on entering new markets with existing products. For example, during an economic downturn, manufacturers of high-end coffee makers began targeting customers who go to coffee shops. The manufacturers are hoping to develop the market for their products by making sure consumers know they can brew a great cup of coffee at home for a fraction of what they spend at Starbucks.

New markets can include any new groups of customers such as different age groups, new geographic areas, or international markets. Many companies, including PepsiCo and Hyundai, have entered—and been successful in—rapidly emerging markets such as Russia, China, and India. Decisions to enter foreign markets are based on a company's resources as well as the complexity of factors such as the political environmental, economic conditions, competition, customer knowledge, and probability of success in the desired market. There are different ways, or strategies, by which

firms can enter international markets. The strategies vary in the amount of risk, control, and investment that firms face. Firms can simply export, or sell their products to buyers abroad, which is the least risky and least expensive method but also offers the least amount of control. Many small firms export their products to foreign markets.

## Product Development

Product development strategies involve creating new products for existing customers. A new product can be a totally new innovation, an improved product, or a product with enhanced value, such as one with a new feature. A new product can also be one that comes in different variations, such as new flavors, colors, and sizes. Mountain Dew Voltage, introduced by PepsiCo Americas Beverages in 2009, is an example. Keep in mind, however, that what works for one company might not work for another. For example, just after Starbucks announced it was cutting back on the number of its lunch offerings, Dunkin' Donuts announced it was adding items to its lunch menu.

## Diversification

Diversification strategies involve entering new markets with new products or doing something outside a firm's current businesses. Firms that have little experience with different markets or different products often diversify their product lines by acquiring other companies. Diversification can be profitable, but it can also be risky if a company does not have the expertise or resources it needs to successfully implement the strategy. Warner Music Group's

purchase of the concert promoter Bulldog Entertainment is an example of a diversification attempt that failed.

## II. You Try It!



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## III. The Marketing Plan

Once the method for growth is established, the marketing department can start developing the specific tactics necessary to achieve that growth. The analysis, strategies, and tactics are laid out in the marketing plan. A marketing plan is a strategic plan at the functional level that provides a firm's marketing group with direction. It is a road map that improves the firm's understanding of its competitive situation. The marketing plan also helps the firm allocate resources and divvy up the tasks that employees need to do for the company to meet its objectives. The different components of marketing plans will be discussed throughout the book.

### References

Principles of Marketing, "Where Strategic Marketing Occurs

within Firms” by University of Minnesota licensed under CC By-NC-SA 4.0

Principles of Marketing, “Strategic Portfolio Planning Approaches” by University of Minnesota licensed under CC By-NC-SA 4.0

Introducing Marketing, John Burnett, 2011, by lumen licensed under CC BY 3.0



# CHAPTER 3: MARKETING ENVIRONMENT

## Learning Objectives

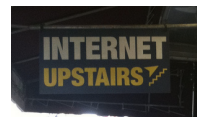
1. Students will be able to list and describe the environments that surround an organization and influence its strategic decision making
2. Students will be able to create an environmental scanning list
3. Students will be able to create and explain the importance of a SWOT analysis.

## Introduction

Marketing managers are confronted with many environmental concerns, such as those posed by technology, customers, competitors, ethics, law, the economy, politics, demographics, and social trends. All organizations should continuously appraise their situation and adjust their strategy to adapt to the environment.

One technique used by organizations to monitor the environment is known as environmental scanning. This term refers to activities directed toward obtaining information about events and

**Technology:**  
The



*commercialization of the Internet has rattled many industries.*

trends that occur outside the organization and that can influence the organization's decision making.

In a sense, such data collection scanning acts as an early warning system for the organization. It allows marketers to understand the current state of the environment, so that the organization can predict trends.

Issues are often forerunners of trend breaks. A trend break could be a value shift in society, a technological innovation that might be permanent, or a paradigm change. Issues are less deep-seated and can be “a temporary short-lived reaction to a social phenomenon.” A trend can be defined as an “environmental phenomenon that has adopted a structural character.”

A formal but simple strategic information scanning system can enhance the effectiveness of the organization's environmental scanning efforts. An information system (part of marketing research) organizes the scanning effort so that information related to specific situations can be more readily obtained and used.

## 3.1 The Environmental Scan

### I. Environmental Scan vs. Environmental Analysis

To understand how elements outside of an organization's control can impact the organization's strategic decision making, marketers will create a SWOT analysis. SWOT stands for strengths, weaknesses, opportunities, and threats. The SWOT is a fluid analysis meaning that it changes constantly. The first step to creating an effective SWOT is to perform an environmental scan. The second step is to conduct an environmental analysis.

An environmental scan's purpose is to analyze the various macro environments that surround organizations and industries to identify current and potential trends or changes. An environmental analysis examines those trends to determine which represent potential opportunities or threats to an organization's strategic implementation. We will start by discussing how to conduct an environmental scan.

### II. The Environmental Scan

Scanning the environment is the researching of trends occurring outside of an organization's control. Some trends are easily identifiable as they are reported in journals, government reports, and by reputable outlets. However, others require 'digging' through research studies, blogs, and other materials. There are a number of common approaches for how the external factors, which describe the macro environment, can be identified and examined. These

factors indirectly affect the organization but cannot be controlled by it. One approach is the PESTEL scan.

PESTEL stands for political, economic, social, technological, legal, and environmental. Occasionally, a PESTEL scan will be used which eliminates environmental, and combines legal with the political environment.

## *PESTEL Scan*

The six environmental factors of the PESTEL scan are the following:

### *Political factors*

- Taxation policy;
- Trade regulations;
- Governmental stability;
- Unemployment policy.

### *Economical factors*

- Inflation rate;
- Growth in spending power;
- Rate of people in a pensionable age;
- Recession or boom;
- Customer liquidations.

### *Socio-cultural*

- Age distribution;
- Education levels;
- Income level;
- Consumerism.
- Diet and nutrition;
- Population growth;
- Life expectancies;

- Religion;
- Social class;
- Expectations of society about the business.

### *Technological factors*

- Internet;
- E-commerce;
- Social media;
- Level of Automation

### *Environmental factors*

- Sustainability;
- Waste disposal;
- Energy consumption;
- Pollution monitoring.

### *Legal factors*

- Unemployment law;
- Health and safety;
- Product safety;
- Advertising regulations;
- Product labeling;
- labor laws.

Note that the items listed are not trends but rather the type of topics that might be included. When conducting a PESTLE scan, specific trends should be listed.

In addition to the PESTLE scan, a scan of the trends occurring within the competitive environment is necessary as well. The competitive analysis is not included in the PESTLE, because it contains more depth as industry changes, competitive advancements, and innovations are explored. An examination of the competitive environment includes direct competitors as well

as indirect competitors. Direct competitors produce the same product while indirect competitors produce product in the same product category.

### III. You Try It

Which of the PESTLE environments contain the following trends? Keep in mind that it is common for trends to ‘fit’ into more than one category so do not be concerned if your first guess is not what shows up, as long as you understand why the one that shows up is correct.



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## 3.2 Environmental Analysis

### I. The Environmental Analysis

Once the environmental (or PESTLE) scan is completed, an analysis needs to be conducted to determine which, if any, of the identified trends may impact the organization. The impact could present a possible opportunity for the organization, or SBU, it could present a possible threat, or it could be both. There will be a number of trends that do not have a potential impact. This stage calls for creativity as being able to take advantage of a trend may be the way to provide product differentiation.

### II. SWOT Analysis

Up to this point, we have focused on the environments outside of our organization. The final step takes an even narrower focus by centering on an individual firm. Specifically, a SWOT analysis is a tool that considers a firm's **strengths** and **weaknesses** along with the **opportunities** and **threats** that exist in the firm's environment. Strengths and weakness are aspects of the organization that are internal and controllable. Opportunities and threats are external to the organization and uncontrollable. In other words, opportunities and threats are the trends identified in the environmental analysis.

Chess master Bruce Pandolfini has noted the similarities between business and chess. In both arenas, you must understand your own abilities as well as your flaws. You must also know your opponents, try to anticipate their moves, and deal with considerable uncertainty. A very popular management tool that incorporates the idea of understanding the elements internal and external to the firm is SWOT (strengths, weaknesses, opportunities, and threats) analysis. Strengths and weaknesses are assessed by examining the firm, while opportunities and threats refer to external events and trends. These ideas can be applied to individuals too. Below we offer examples of each element of SWOT analysis for organizations and for individuals who are seeking employment.

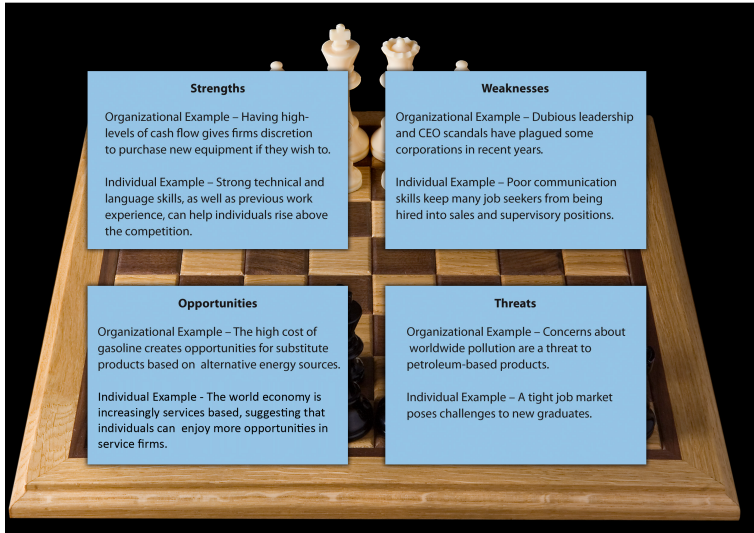


Figure 4.20 SWOT

Executives using SWOT analysis compare these internal and external factors to generate ideas about how their firm might become more successful. In general, it is wise to focus on ideas that allow a firm to leverage its strengths, steer clear of or minimize its weaknesses, capitalize on opportunities, and protect itself against external threats. For example, untapped overseas market opportunities have presented potentially lucrative market opportunities to Subway. Meanwhile, Subway's strengths include a well-established brand name and a simple business format that can easily be adapted to other cultures. In considering the opportunities offered by overseas markets and Subway's strengths, it is not surprising that entering and expanding in different countries has been a key element of Subway's strategy in recent years. Indeed,

Subway currently has operations in over 100 nations. Of course, other restaurant chains such as McDonald's and KFC also see this overseas opportunity, and are external threats to Subway's success (Wikipedia, 2014).

A SWOT analysis is helpful to executives and managers, and is used within most organizations. Important cautions need to be offered about SWOT analysis, however. First, in laying out each of the four elements of SWOT, internal and external factors should not be confused with each other. Strengths and weaknesses are internal to the firm's environment: they are within the company. The external environment includes opportunities and threats in the business community outside the company. It is important not to list strengths as opportunities, for example, if executives are to succeed at matching internal and external concerns during the idea generation process.

Second, opportunities should not be confused with strategic moves designed to capitalize on these opportunities. In the case of Subway, it would be a mistake to list "entering new countries" as an opportunity. Instead, untapped markets are the opportunity presented to Subway, and entering those markets is a way for Subway to exploit the opportunity. Finally, and perhaps most important, the results of SWOT analysis should not be overemphasized. SWOT analysis is a relatively simple tool for understanding a firm's situation, which is inherently complex. As a result, SWOT is best viewed as a brainstorming technique for generating creative ideas, not as a rigorous method for selecting strategies. Thus the ideas produced by SWOT analysis offer a starting point for executives' efforts to craft strategies for their organization, not an ending point.

In addition to organizations, individuals can benefit from applying SWOT analysis to their personal situation. A college student who is approaching graduation, for example, could lay out his or her main strengths and weaknesses and the opportunities and threats presented by the environment. Suppose, for instance, that this person enjoys and is good at helping others (a strength) but also

has a rather short attention span (a weakness). Meanwhile, opportunities to work at a rehabilitation center or to pursue an advanced degree are available. Our hypothetical student might be wise to pursue a job at the rehabilitation center (where her strength at helping others would be a powerful asset) rather than entering graduate school (where a lot of reading is required and her short attention span could undermine her studies).


### III. Format

Typically, the SWOT analysis is presented in a graphic format for quick reference followed by a more detailed explanation. In a report, the graphic should be preceded by a sentence or two telling the reader what they will be seeing. A graphic should never be presented without some kind of introduction.

SWOT ANALYSIS	
<p><b>Strengths</b></p> <p>What makes your service the top tool for addressing consumer needs? What are your cutting-edge features, your novel capabilities that set your company apart.</p> <p>Example: Reputation in marketplace. Expertise at partner level in HRM consultancy.</p>	<p><b>Weaknesses</b></p> <p>What aspect of your company has room for growth? What part of your business could be improved to strengthen your services? What elements have prompted feedback?</p> <p>Example: Shortage of consultants at operating level rather than partner level. Unable to deal with multi-disciplinary assignments because of size or lack of ability.</p>
<p><b>Opportunities</b></p> <p>What are consumers craving? What does your community need? What skills, knowledge, and tools does your company have to extend to individuals, businesses, or organizations?</p> <p>Example: Well established position with a well defined market niche. Identified market for consultancy in areas other than HRM.</p>	<p><b>Threats</b></p> <p>What obstacles do you foresee challenging your company's success? Which competitors have the potential to threaten your business? Is your consumer market evolving in a way that poses a risk to your company's future?</p> <p>Example: Large consultancies operating at a minor level. Other small consultancies looking to invade the marketplace.</p>

IV. You Try It!

In the following chart, assume that you are conducting a SWOT for Taco Bell.



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V. Conclusion

All strategic decisions and discussions need to be based on current information and situations. A consistently and constantly updated SWOT analysis allows the employees of an organization to feel

confident that they are making the best decisions possible. To construct a SWOT analysis, an environmental scan need to be conducted followed by an environmental analysis.

# CHAPTER 4: MARKETING RESEARCH

## Learning Objectives

1. Students will be able to articulate and explain the importance of marketing research to the effective development of a marketing strategy
2. Students will differentiate the types and purposes of research techniques

## Introduction

### Discovering why they chew

Juicy Fruit Gum, the oldest brand of the Wm. Wrigley Jr. Company, was not chewing up the teen market, gum's top demographic. In 1997, the company found itself under pressure from competitors. Sales and market share were down. How could Wrigley make more kids chomp on Juicy Fruit? What qualities about Juicy Fruit might appeal to teens? Wrigley went to the source to find out. It found kids who chew five sticks or more of Juicy Fruit each week and promptly gave them a homework assignment. Find pictures that remind them of the gum and write a short story about it. From the focus group, Wrigley learned that teens chew Juicy Fruit because it is sweet. It refreshes and energizes them.

Their ad agency, BBDO, confirmed what the teens were saying.

BBDO asked more than 400 heavy gum chewers to rate various brands by attributes that best represented them. For Juicy Fruit, respondents picked phrases such as “has the right amount of sweetness” and “is made with natural sweetness”. Another study by BBDO looked into why teens chew gum. Was it because they are stressed out—or because they forgot to brush their teeth before going to school? Nearly three out of four kids said they stick a wad into their mouth when they crave something sweet. And Juicy Fruit was the top brand they chose to fulfill that need (Big Red was a distant second).

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Although the marketing research conducted by the Wrigley Co. was fairly simple, it provided a new direction for their marketing strategy. BBDO developed four TV commercials with the “Gotta Have Sweet” theme. Roughly 70 per cent of respondents voluntarily recalled the Juicy Fruit name after watching the commercial (the average recall for a brand of sugar gum is 57 per cent). Sales of 100-stick boxes of Juicy Fruit rose 5 per cent after the start of the ad campaign, reversing a 2 per cent decline prior to it. Juicy Fruit’s market share also increased from 4.9 per cent to 5.3 per cent, the biggest gain of any established chewing gum brand during the year following the campaign.

Marketing research addresses the need for quicker, yet more accurate, decision making by the marketer. The impetus for this situation is the complex relationship between the business firm and the ever-changing external environment. In particular, most marketers are far removed from their customers; yet most know who their customers are, what they want, and what competitors are doing. Often the marketer relies on salespeople and dealers for information, but more and more the best source of information is marketing research.

It should be noted that most marketing decisions are still made without the use of formal marketing research. In many cases, the time required to do marketing research is not available. In other

cases, the cost of obtaining the data is prohibitive or the desired data cannot be obtained in reliable form. Ultimately, successful marketing executives make decisions on the basis of a blend of facts and intuition.

Marketing research is applicable throughout the marketing planning process. It is a very exciting field that allows organizations to make strategic decisions to achieve their objectives. Taking the time to research the environment, the competition, and most importantly, the target market, allows a marketer to make well-informed decisions. Marketing research can be conducted in all sizes and types of organizations. While resources may be limited, there are many credible sources of information that are free or inexpensive to access.

In this chapter, we are going to explore the marketing research process. Before getting into the process, let's discuss some of the potential issues or hurdles a marketer might face.

## Potential Issues

There are two main hurdles that can get in the way of effective research within an organization: a sense of urgency, and resource allocation

1. **Sense of Urgency:** While some research can be 'looked up' fairly quickly, good quality research takes time. Marketers or others within an organization, may want to move on decision making quickly without taking the time to do proper research. This becomes more prevalent when decision makers use 'what works for me' or 'what I like' to make decisions regarding the target market.
2. **Resource Allocation:** Marketing research can be expensive. When requesting approval for the expenditure, a researcher may experience resistance as the research cannot guarantee a

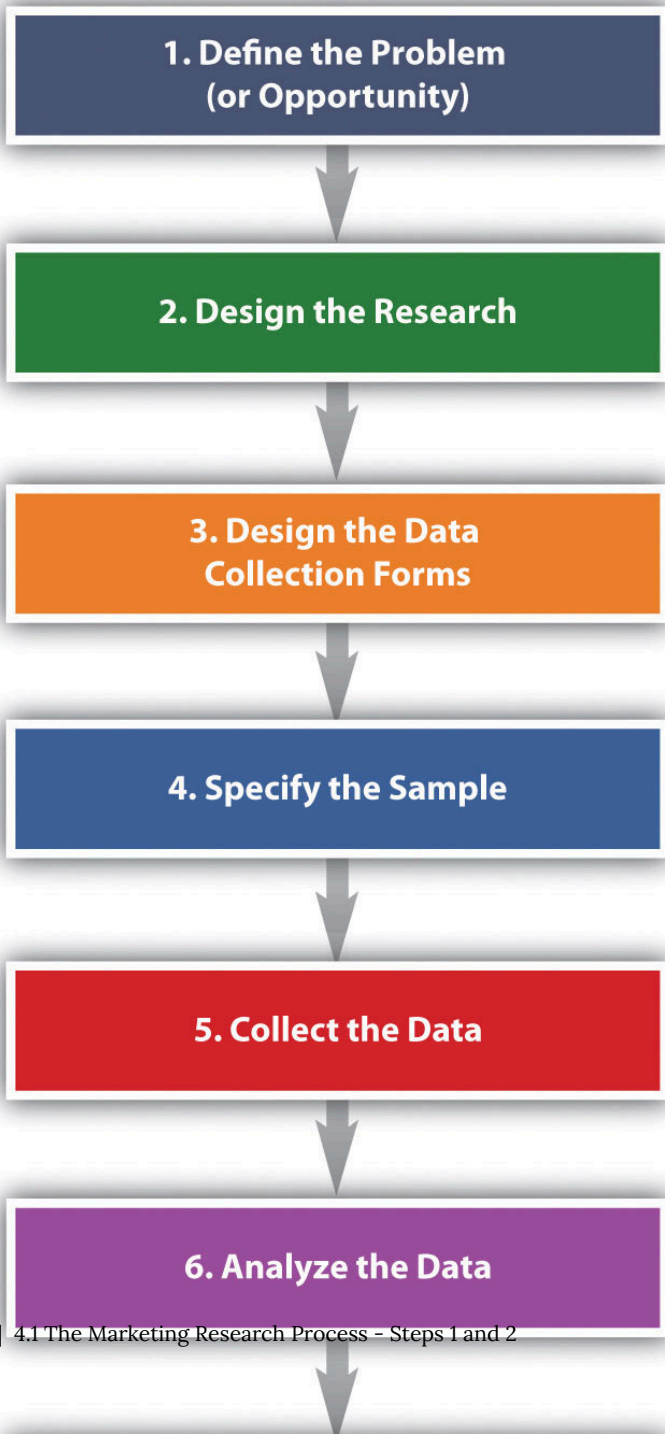
specific return on the investment.

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## 4.1 The Marketing Research Process - Steps 1 and 2

# The Marketing Research Process

The basic steps used to conduct marketing research are shown below. After the graphic, each step will be explained in detail.



# I. Step 1: Define the Problem (or Opportunity)

There's a saying in marketing research that a problem half defined is a problem half solved. Defining the "problem" of the research sounds simple, doesn't it? Suppose your product is tutoring other students in a subject you're a whiz at. You have been tutoring for a while, and people have begun to realize you're darned good at it. Then, suddenly, your business drops off. Or it explodes, and you can't cope with the number of students you're being asked help. If the business has exploded, should you try to expand your services? Perhaps you should subcontract with some other "whiz" students. You would send them students to be tutored, and they would give you a cut of their pay for each student you referred to them.

Both of these scenarios would be a problem for you, wouldn't they? They are problems insofar as they cause you headaches. But are they really *the* problem? Or are they the symptoms of something bigger? For example, maybe your business has dropped off because your school is experiencing financial trouble and has lowered the number of scholarships given to incoming freshmen. Consequently, there are fewer total students on campus who need your services. Conversely, if you're swamped with people who want you to tutor them, perhaps your school awarded more scholarships than usual, so there are a greater number of students who need your services. Alternately, perhaps you ran an ad in your school's college newspaper, and that led to the influx of students wanting you to tutor them.

Businesses are in the same boat you are as a tutor. They take a look at symptoms and try to drill down to the potential causes. If you approach a marketing research company with either scenario—either too much or too little business—the firm will seek more information from you such as the following:

- In what semester(s) did your tutoring revenues fall (or rise)?
- In what subject areas did your tutoring revenues fall (or rise)?
- In what sales channels did revenues fall (or rise): Were there fewer (or more) referrals from professors or other students? Did the ad you ran result in fewer (or more) referrals this month than in the past months?
- Among what demographic groups did your revenues fall (or rise)—women or men, people with certain majors, or first-year, second-, third-, or fourth-year students?

The key is to look at all potential causes so as to narrow the parameters of the study to the information you actually need to make a good decision about how to fix your business if revenues have dropped or whether or not to expand it if your revenues have exploded.

The next task for the researcher is to put into writing the research objective. The research objective is the goal(s) the research is supposed to accomplish. The marketing research objective for your tutoring business might read as follows:

To survey college professors who teach 100- and 200-level math courses to determine why the number of students referred for tutoring dropped in the second semester.

This is admittedly a simple example designed to help you understand the basic concept. If you take a marketing research course, you will learn that research objectives get a lot more complicated than this. The following is an example:

“To gather information from a sample representative of the U.S. population among those who are ‘very likely’ to purchase an automobile within the next 6 months, which assesses preferences (measured on a 1–5 scale ranging from ‘very likely to buy’ to ‘not likely at all to buy’) for the model diesel at three different price levels. Such data would serve as input into a forecasting model that would forecast unit sales, by geographic regions of the country,

for each combination of the model's different prices and fuel configurations (Burns & Bush, 2010)."

Now do you understand why defining the problem is complicated and half the battle? Many a marketing research effort is doomed from the start because the problem was improperly defined. Coke's ill-fated decision to change the formula of Coca-Cola in 1985 is a case in point: Pepsi had been creeping up on Coke in terms of market share over the years as well as running a successful promotional campaign called the "Pepsi Challenge," in which consumers were encouraged to do a blind taste test to see if they agreed that Pepsi was better. Coke spent four years researching "the problem." Indeed, people seemed to like the taste of Pepsi better in blind taste tests. Thus, the formula for Coke was changed. But the outcry among the public was so great that the new formula didn't last long—a matter of months—before the old formula was reinstated. Some marketing experts believe Coke incorrectly defined the problem as "How can we beat Pepsi in taste tests?" instead of "How can we gain market share against Pepsi?" also, in the blind taste tests, participants were not told that the original Coke would be taken away (Burns & Bush, 2010) While this example is dated, it is a perfect example of research gone wrong.

## II. Step 2: Design the Research

The next step in the marketing research process is to do a research design. The research design is your "plan of attack." It outlines what data you are going to gather and from whom, how and when you will collect the data, and how you will analyze it once it's been obtained. Let's look at the data you're going to gather first.

There are two basic types of data you can gather. The first is primary data. Primary data is information you collect yourself, using hands-on tools such as interviews or surveys, specifically for the research project you're conducting. Secondary data is data that has

already been collected by someone else, or data you have already collected for another purpose. Collecting primary data is more time consuming, work intensive, and expensive than collecting secondary data. Consequently, you should always try to collect secondary data first to solve your research problem, if you can. A great deal of research on a wide variety of topics already exists. If this research contains the answer to your question, there is no need for you to replicate it. Why reinvent the wheel?


## Sources of Secondary Data

Your company's internal records are a source of secondary data. So are any data you collect as part of your marketing intelligence gathering efforts. You can also purchase syndicated research. Syndicated research is primary data that marketing research firms collect on a regular basis and sell to other companies. J.D. Power & Associates is a provider of syndicated research. The company conducts independent, unbiased surveys of customer satisfaction, product quality, and buyer behavior for various industries. The company is best known for its research in the automobile sector. One of the best-known sellers of syndicated research is the Nielsen Company, which produces the Nielsen ratings. The Nielsen ratings measure the size of television, radio, and newspaper audiences in various markets. You have probably read or heard about TV shows that get the highest (Nielsen) ratings. (Arbitron does the same thing for radio ratings.) Nielsen, along with its main competitor, Information Resources, Inc. (IRI), also sells businesses scanner-based research. Scanner-based research is

information collected by scanners at checkout stands in stores. Each week Nielsen and IRI collect information on the millions of purchases made at stores. The companies then compile the information and sell it to firms in various industries that subscribe to their services. The Nielsen Company has also recently teamed up with Facebook to collect marketing research information. Via Facebook, users will see surveys in some of the spaces in which they used to see online ads (Rappeport, Gelles, 2009).


By contrast, MarketResearch.com is an example of a marketing research aggregator. A marketing research aggregator is a marketing research company that doesn't conduct its own research and sell it. Instead, it buys research reports from other marketing research companies and then sells the reports in their entirety or in pieces to other firms. Check out MarketResearch.com's Web site. As you will see there are a huge number of studies in every category imaginable that you can buy for relatively small amounts of money.

## Figure 4.1



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Materials & Chemicals > Metals, Paper & Forest Products, Plastics  
Transportation & Shipping > Automotive, Aviation & Aerospace, Logistics & Shipping  
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Biotechnology > Agriculture GMO, Genomics, Proteomics  
Diagnostics > In Vitro Diagnostics, Medical Imaging, Molecular Assays  
Healthcare > Facilities, Insurance & Managed Care, Regulation & Policy  
Medical Devices > Cardiovascular Devices, Equipment & Supplies, Wound Care  
Pharmaceuticals > Diseases & Conditions, Prescription Drugs, Therapeutic Area  
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Computer Hardware & Networking > Computer Equipment, Electronics, Networks  
E-Commerce & IT Outsourcing > E-Commerce, IT Administration, IT Services  
Media > Broadcasting & Cable, Publishing  
Software & Enterprise Computing > CRM & Customer Service, Internet Applications, Software & Services  
Telecommunications & Wireless > Telecommunications, Wireless  
**Marketing & Market Research**  
Advertising & Marketing > Branding, Email Marketing, Strategic Planning  
Demographics > Age, Lifestyle & Economics, Multicultural  
Market Research  
Reports by Country

Market research aggregators buy research reports from other marketing research companies and then resell them in part or in whole to other companies so they don't have to gather primary data.

Source: <http://www.marketresearch.com>.

The library is a good place to gather free secondary data. It has searchable databases as well as handbooks, dictionaries, and books, some of which you can access online. Government agencies also collect and report information on demographics, economic and employment data, health information, and balance-of-trade

statistics, among a lot of other information. The U.S. Census Bureau collects census data every ten years to gather information about who lives where. Basic demographic information about sex, age, race, and types of housing in which people live in each U.S. state, metropolitan area, and rural area is gathered so that population shifts can be tracked for various purposes, including determining the number of legislators each state should have in the U.S. House of Representatives. For the U.S. government, this is primary data. For marketing managers it is an important source of secondary data.

# Examples of Primary Data Sources versus Secondary Data Sources

Primary Data Sources	Secondary Data Sources
Interviews	Census data
Surveys	Web sites
	Publications
	Trade associations
	Syndicated research and market aggregators

# Gauging the Quality of Secondary Data

When you are gathering secondary information, it's always good to be a little skeptical of it. Sometimes studies are commissioned to produce the result a client wants to hear—or wants the public to hear. For example, throughout the twentieth century, numerous studies found that smoking was good for people's health. The problem was the studies were commissioned by the tobacco industry. Web research can also pose certain hazards. There are many biased sites that try to fool people that they are providing good data. Often the data is favorable to the products they are trying to sell. Beware of product reviews as well. Unscrupulous sellers sometimes get online and create bogus ratings for products. See below for questions you can ask to help gauge the credibility of secondary information.

## Gauging the Credibility of Secondary Data:

## Questions to Ask

- Who gathered this information?
- For what purpose?
- What does the person or organization that gathered the information have to gain by doing so?
- Was the information gathered and reported in a systematic manner?
- Is the source of the information accepted as an authority by other experts in the field?
- Does the article provide objective evidence to support the position presented?

## Types of Research Design

Now let's look specifically at the types of research designs that are

utilized. By understanding different types of research designs, a researcher can solve a client's problems more quickly and efficiently without jumping through more hoops than necessary. Research designs fall into one of the following three categories:

1. Exploratory research design
2. Descriptive research design
3. Causal research design (experiments)

An exploratory research design is useful when you are initially investigating a problem but you haven't defined it well enough to do an in-depth study of it. Perhaps via your regular market intelligence, you have spotted what appears to be a new opportunity in the marketplace. You would then do exploratory research to investigate it further and "get your feet wet," as the saying goes. Exploratory research is less structured than other types of research, and secondary data is often utilized.

One form of exploratory research is qualitative research. Qualitative research is any form of research that includes gathering data that is not quantitative, and often involves exploring questions such as *why* as much as *what* or *how much*. Different forms, such as depth interviews and focus group interviews, are common in marketing research.

The depth interview—engaging in detailed, one-on-one, question-and-answer sessions with potential buyers—is an exploratory research technique. However, unlike surveys, the people being interviewed aren't asked a series of standard questions. Instead the interviewer is armed with some general topics and asks questions that are open ended, meaning that they allow the interviewee to elaborate. "How did you feel about the product after you purchased it?" is an example of a question that might be asked. A depth interview also allows a researcher to ask logical follow-up questions such as "Can you tell me what you mean when you say you felt uncomfortable using the service?" or "Can you give me some examples?" to help dig further and shed additional

light on the research problem. Depth interviews can be conducted in person or over the phone. The interviewer either takes notes or records the interview.

Focus groups and case studies are often utilized for exploratory research as well. A focus group is a group of potential buyers who are brought together to discuss a marketing research topic with one another. A moderator is used to focus the discussion, the sessions are recorded, and the main points of consensus are later summarized by the market researcher. Textbook publishers often gather groups of professors at educational conferences to participate in focus groups. However, focus groups can also be conducted on the telephone, in online chat rooms, or both, using meeting software like WebEx. The basic steps of conducting a focus group are outlined below.

## The Basic Steps of Conducting a Focus Group

1. Establish the objectives of the focus group. What is its purpose?
2. Identify the people who will participate in the focus

group. What makes them qualified to participate?  
How many of them will you need and what they will be paid?

3. Obtain contact information for the participants and send out invitations (usually e-mails are most efficient).
4. Develop a list of questions.
5. Choose a facilitator.
6. Choose a location in which to hold the focus group and the method by which it will be recorded.
7. Conduct the focus group. If the focus group is not conducted electronically, include name tags for the participants, pens and notepads, any materials the participants need to see, and refreshments. Record participants' responses.
8. Summarize the notes from the focus group and write a report for management.

A case study looks at how another company solved the problem that's being researched. Sometimes multiple cases, or companies, are used in a study. Case studies nonetheless have a mixed reputation. Some researchers believe it's hard to generalize, or apply, the results of a case study to other companies. Nonetheless, collecting information about companies that encountered the same problems your firm is facing can give you a certain amount of insight about what direction you should take. In fact, one way to begin a research project is to carefully study a successful product or service.

Two other types of qualitative data used for exploratory research are ethnographies and projective techniques. In an ethnography, researchers interview, observe, and often videotape people while they work, live, shop, and play. The Walt Disney Company has recently begun using ethnographers to uncover the likes and

dislikes of boys aged six to fourteen, a financially attractive market segment for Disney, but one in which the company has been losing market share. The ethnographers visit the homes of boys, observe the things they have in their rooms to get a sense of their hobbies, and accompany them and their mothers when they shop to see where they go, what the boys are interested in, and what they ultimately buy. (The children get seventy-five dollars out of the deal, incidentally.) (Barnes, 2009)

Projective techniques are used to reveal information research respondents might not reveal by being asked directly. Asking a person to complete sentences such as the following is one technique:

*People who buy Coach handbags \_\_\_\_\_.*

(Will he or she reply with “are cool,” “are affluent,” or “are pretentious,” for example?)

*KFC’s grilled chicken is \_\_\_\_\_.*

Or the person might be asked to finish a story that presents a certain scenario. Word associations are also used to discern people’s underlying attitudes toward goods and services. Using a word-association technique, a market researcher asks a person to say or write the first word that comes to his or her mind in response to another word. If the initial word is “fast food,” what word does the person associate it with or respond with? Is it “McDonald’s”? If many people reply that way, and you’re conducting research for Burger King, that could indicate Burger King has a problem. However, if the research is being conducted for Wendy’s, which recently began running an advertising campaign to the effect that Wendy’s offerings are “better than fast food,” it could indicate that the campaign is working.

Completing cartoons is yet another type of projective technique. It’s similar to finishing a sentence or story, only with the pictures. People are asked to look at a cartoon such as the one shown in Figure 4.2 “Example of a Cartoon-Completion Projective Technique”. One of the characters in the picture will have made

a statement, and the person is asked to fill in the empty cartoon “bubble” with how they think the second character will respond.

## Figure 4.2 Example of a Cartoon-Completion Projective Technique



In some cases, your research might end with exploratory research. Perhaps you have discovered your organization lacks the resources

needed to produce the product. In other cases, you might decide you need more in-depth, quantitative research such as descriptive research or causal research, which are discussed next. Most marketing research professionals advise using both types of research, if it's feasible. On the one hand, the qualitative-type research used in exploratory research is often considered too "lightweight." On the other hand, relying solely on quantitative information often results in market research that lacks ideas.

## Descriptive Research

Anything that can be observed and counted falls into the category of descriptive research design. A study using a descriptive research design involves gathering hard numbers, often via surveys, to describe or measure a phenomenon so as to answer the questions of *who*, *what*, *where*, *when*, and *how*. "On a scale of 1–5, how satisfied were you with your service?" is a question that illustrates the information a descriptive research design is supposed to capture.

Physiological measurements also fall into the category of descriptive design. Physiological measurements measure people's involuntary physical responses to marketing stimuli, such as an advertisement. Elsewhere, we explained that researchers have gone so far as to scan the brains of consumers to see what they *really* think about products versus what they say about them. Eye tracking is another cutting-edge type of physiological measurement. It involves recording the movements of a person's

eyes when they look at some sort of stimulus, such as a banner ad or a Web page. The Walt Disney Company has a research facility in Austin, Texas, that it uses to take physical measurements of viewers when they see Disney programs and advertisements. The facility measures three types of responses: people's heart rates, skin changes, and eye movements (eye tracking) (Spangler, 2009).

Figure 4.3



A woman shows off her headgear for an eye-tracking study. The gear's not exactly a fashion statement but . . .

lawrencegs – Google Glass – CC BY 2.0.

A strictly descriptive research design instrument—a survey, for example—can tell you how satisfied your customers are. It can't, however, tell you why. Nor can an eye-tracking study tell you *why* people's eyes tend to dwell on certain types of banner ads—only that they do. To answer “why” questions an exploratory research design or causal research design is needed (Wagner, 2007).

## Causal Research

Causal research design examines cause-and-effect relationships. Using a causal research design allows researchers to answer “what if” types of questions. In other words, if a firm changes X (say, a product's price, design, placement, or advertising), what will happen to Y (say, sales or customer loyalty)? To conduct causal research, the researcher designs an experiment that “controls,” or holds constant, all of a product's marketing elements except one (or using advanced techniques of research, a few elements can be studied at the same time). The one variable is changed, and the effect is then measured. Sometimes the experiments are conducted in a laboratory using a simulated setting designed to replicate the conditions buyers would experience. Or the experiments may be conducted in a virtual computer setting.

You might think setting up an experiment in a virtual world such

as the online game Second Life would be a viable way to conduct controlled marketing research. Some companies have tried to use Second Life for this purpose, but the results have been somewhat mixed as to whether or not it is a good medium for marketing research. The German marketing research firm Komjuniti was one of the first “real-world” companies to set up an “island” in Second Life upon which it could conduct marketing research. However, with so many other attractive fantasy islands in which to play, the company found it difficult to get Second Life residents, or players, to voluntarily visit the island and stay long enough so meaningful research could be conducted. (Plus, the “residents,” or players, in Second Life have been known to protest corporations invading their world. When the German firm Komjuniti created an island in Second Life to conduct marketing research, the residents showed up waving signs and threatening to boycott the island.) (Wagner, 2007)

Why is being able to control the setting so important? Let’s say you are an American flag manufacturer and you are working with Walmart to conduct an experiment to see where in its stores American flags should be placed so as to increase their sales. Then the terrorist attacks of 9/11 occur. In the days afterward, sales skyrocketed—people bought flags no matter where they were displayed. Obviously, the terrorist attacks in the United States would have skewed the experiment’s data.

An experiment conducted in a natural setting such as a store is referred to as a field experiment. Companies sometimes do field experiments either because it is more convenient or because they want to see if buyers will behave the same way in the “real world” as in a laboratory or on a computer. The place the experiment is conducted or the demographic group of people the experiment is administered to is considered the test market. Before a large company rolls out a product to the entire marketplace, it will often place the offering in a test market to see how well it will be received. For example, to compete with MillerCoors’ sixty-four-calorie beer MGD 64, Anheuser-Busch recently began testing its Select 55 beer in certain cities around the country (McWilliams, 2009).



Select 55 beer: Coming soon to a test market near you? (If you're on a diet, you have to hope so!)

Martine – Le champagne – CC BY-NC 2.0.

Many companies use experiments to test all of their marketing communications. For example, the online discount retailer O.co (formerly called Overstock.com) carefully tests all of its marketing offers and tracks the results of each one. One study the company conducted combined twenty-six different variables related to offers e-mailed to several thousand customers. The study resulted in a decision to send a group of e-mails to different segments. The company then tracked the results of the sales generated to see if they were in line with the earlier experiment it had conducted that led it to make the offer.

### III. You try it



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You can view it online here:

<https://iu.pressbooks.pub/mktgwip/?p=63#h5p-7>

## 4.2 The Research Process - Step 3 - 5

### Step 3: Design the Data-Collection Forms

If the behavior of buyers is being formally observed, and a number of different researchers are conducting observations, the data obviously need to be recorded on a standardized data-collection form that's either paper or electronic. Otherwise, the data collected will not be comparable. The items on the form could include a shopper's sex; his or her approximate age; whether the person seemed hurried, moderately hurried, or unhurried; and whether or not he or she read the label on products, used coupons, and so forth.

The same is true when it comes to surveying people with questionnaires. Surveying people is one of the most commonly used techniques to collect quantitative data. Surveys are popular because they can be easily administered to large numbers of people fairly quickly. However, to produce the best results, the questionnaire for the survey needs to be carefully designed.

## Questionnaire Design

Most questionnaires follow a similar format: They begin with an introduction describing what the study is for, followed by instructions for completing the questionnaire and, if necessary,

returning it to the market researcher. The first few questions that appear on the questionnaire are usually basic, warm-up type of questions the respondent can readily answer, such as the respondent's age, level of education, place of residence, and so forth. The warm-up questions are then followed by a logical progression of more detailed, in-depth questions that get to the heart of the question being researched. Lastly, the questionnaire wraps up with a statement that thanks the respondent for participating in the survey and information and explains when and how they will be paid for participating. To see some examples of questionnaires and how they are laid out, click on the following link: <http://cas.uah.edu/wrenb/mkt343/Project/Sample%20Questionnaires.htm>.

How the questions themselves are worded is extremely important. It's human nature for respondents to want to provide the "correct" answers to the person administering the survey, so as to seem agreeable. Therefore, there is always a hazard that people will try to tell you what you want to hear on a survey. Consequently, care needs to be taken that the survey questions are written in an unbiased, neutral way. In other words, they shouldn't lead a person taking the questionnaire to answer a question one way or another by virtue of the way you have worded it. The following is an example of a leading question.

*Don't you agree that teachers should be paid more?*

The questions also need to be clear and unambiguous. Consider the following question:

*Which brand of toothpaste do you use?*

The question sounds clear enough, but is it really? What if the respondent recently switched brands? What if she uses Crest at home, but while away from home or traveling, she uses Colgate's Wisp portable toothpaste-and-brush product? How will the respondent answer the question? Rewording the question as follows so it's more specific will help make the question clearer:

*Which brand of toothpaste have you used at home in the past six*

months? If you have used more than one brand, please list each of them<sup>1</sup>.

Sensitive questions have to be asked carefully. For example, asking a respondent, “Do you consider yourself a light, moderate, or heavy drinker?” can be tricky. Few people want to admit to being heavy drinkers. You can “soften” the question by including a range of answers, as the following example shows:

*How many alcoholic beverages do you consume in a week?*

- \_\_0–5 alcoholic beverages
- \_\_5–10 alcoholic beverages
- \_\_10–15 alcoholic beverages

Many people don’t like to answer questions about their income levels. Asking them to specify income ranges rather than divulge their actual incomes can help.

Other research question “don’ts” include using jargon and acronyms that could confuse people. “How often do you IM?” is an example. Also, don’t muddy the waters by asking two questions in the same question, something researchers refer to as a double-barreled question. “Do you think parents should spend more time with their children and/or their teachers?” is an example of a double-barreled question.

Open-ended questions, or questions that ask respondents to elaborate, can be included. However, they are harder to tabulate than closed-ended questions, or questions that limit a respondent’s answers. Multiple-choice and yes-and-no questions are examples of closed-ended questions.

# Testing the Questionnaire

You have probably heard the phrase “garbage in, garbage out.” If the questions are bad, the information gathered will be bad, too. One way to make sure you don’t end up with garbage is to test the questionnaire before sending it out to find out if there are any problems with it. Is there enough space for people to elaborate on open-ended questions? Is the font readable? To test the questionnaire, marketing research professionals first administer it to a number of respondents face to face. This gives the respondents the chance to ask the researcher about questions or instructions that are unclear or don’t make sense to them. The researcher then administers the questionnaire to a small subset of respondents in the actual way the survey is going to be disseminated, whether it’s delivered via phone, in person, by mail, or online.

Getting people to participate and complete questionnaires can be difficult. If the questionnaire is too long or hard to read, many people won’t complete it. So, by all means, eliminate any questions that aren’t necessary. Of course, including some sort of monetary incentive for completing the survey can increase the number of completed questionnaires a market researcher will receive.

## Step 4: Specify the Sample

Once you have created your questionnaire or other marketing study, how do you figure out who should participate in it? Obviously, you can’t survey or observe all potential buyers in the marketplace. Instead, you must choose a sample. A sample is a subset of potential buyers that are representative of your *entire* target market, or population being studied. Sometimes market researchers refer to the population as the *universe* to reflect the fact that it includes the entire target market, whether it consists of a million people, a

hundred thousand, a few hundred, or a dozen. “All unmarried people over the age of eighteen who purchased Dirt Devil steam cleaners in the United States during 2011” is an example of a population that has been defined.

Obviously, the population has to be defined correctly. Otherwise, you will be studying the wrong group of people. Not defining the population correctly can result in flawed research, or sampling error. A sampling error is any type of marketing research mistake that results because a sample was utilized. One criticism of Internet surveys is that the people who take these surveys don't really represent the overall population. On average, Internet survey takers tend to be more educated and tech savvy. Consequently, if they solely constitute your population, even if you screen them for certain criteria, the data you collect could end up being skewed.

The next step is to put together the sampling frame, which is the list from which the sample is drawn. The sampling frame can be put together using a directory, customer list, or membership roster (Wrenn et. al., 2007). Keep in mind that the sampling frame won't *perfectly* match the population. Some people will be included on the list who shouldn't be. Other people who should be included will be inadvertently omitted. It's no different than if you were to conduct a survey of, say, 25 percent of your friends, using friends' names you have in your cell phone. Most of your friends' names are likely to be programmed into your phone, but not all of them. As a result, a certain degree of sampling error always occurs.

There are two main categories of samples in terms of how they are drawn: probability samples and nonprobability samples. A probability sample is one in which each would-be participant has a known and equal chance of being selected. The chance is known because the total number of people in the sampling frame is known. For example, if every other person from the sampling frame were chosen, each person would have a 50 percent chance of being selected.

A nonprobability sample is any type of sample that's not drawn in a systematic way. So the chances of each would-be participant

being selected can't be known. A convenience sample is one type of nonprobability sample. It is a sample a researcher draws because it's readily available and convenient to do so. Surveying people on the street as they pass by is an example of a convenience sample. The question is, are these people representative of the target market?

For example, suppose a grocery store needed to quickly conduct some research on shoppers to get ready for an upcoming promotion. Now suppose that the researcher assigned to the project showed up between the hours of 10 a.m. and 12 p.m. on a weekday and surveyed as many shoppers as possible. The problem is that the shoppers wouldn't be representative of the store's entire target market. What about commuters who stop at the store before and after work? Their views wouldn't be represented. Neither would people who work the night shift or shop at odd hours. As a result, there would be a lot of room for sampling error in this study. For this reason, studies that use nonprobability samples aren't considered as accurate as studies that use probability samples. Nonprobability samples are more often used in exploratory research.

Lastly, the size of the sample has an effect on the amount of sampling error. Larger samples generally produce more accurate results. The larger your sample is, the more data you will have, which will give you a more complete picture of what you're studying. However, the more people surveyed or studied, the more costly the research becomes.

Statistics can be used to determine a sample's optimal size. If you take a marketing research or statistics class, you will learn more about how to determine the optimal size.

Of course, if you hire a marketing research company, much of this work will be taken care of for you. Many marketing research companies, like ResearchNow, maintain panels of prescreened people they draw upon for samples. In addition, the marketing research firm will be responsible for collecting the data or contracting with a company that specializes in data collection. Data collection is discussed next.

## Step 5: Collect the Data

As we have explained, primary marketing research data can be gathered in a number of ways. Surveys, taking physical measurements, and observing people are just three of the ways we discussed. If you're observing customers as part of gathering the data, keep in mind that if shoppers are aware of the fact, it can have an effect on their behavior. For example, if a customer shopping for feminine hygiene products in a supermarket aisle realizes she is being watched, she could become embarrassed and leave the aisle, which would adversely affect your data. To get around problems such as these, some companies set up cameras or two-way mirrors to observe customers. Organizations also hire mystery shoppers to work around the problem. A mystery shopper is someone who is paid to shop at a firm's establishment or one of its competitors to observe the level of service, cleanliness of the facility, and so forth, and report his or her findings to the firm.

Survey data can be collected in many different ways and combinations of ways. The following are the basic methods used:

- Face-to-face (can be computer aided)
- Telephone (can be computer aided or completely automated)
- Mail and hand delivery
- E-mail and the Web

A face-to-face survey is, of course, administered by a person. The surveys are conducted in public places such as in shopping malls, on the street, or in people's homes if they have agreed to it. In years past, it was common for researchers in the United States to knock on people's doors to gather survey data. However, randomly

collected door-to-door interviews are less common today, partly because people are afraid of crime and are reluctant to give information to strangers (McDaniel & Gates, 1998).

Nonetheless, “beating the streets” is still a legitimate way questionnaire data is collected. When the U.S. Census Bureau collects data on the nation’s population, it hand delivers questionnaires to rural households that do not have street-name and house-number addresses. And Census Bureau workers personally survey the homeless to collect information about their numbers. Face-to-face surveys are also commonly used in third world countries to collect information from people who cannot read or lack phones and computers.

A plus of face-to-face surveys is that they allow researchers to ask lengthier, more complex questions because the people being surveyed can see and read the questionnaires. The same is true when a computer is utilized. For example, the researcher might ask the respondent to look at a list of ten retail stores and rank the stores from best to worst. The same question wouldn’t work so well over the telephone because the person couldn’t see the list. The question would have to be rewritten. Another drawback with telephone surveys is that even though federal and state “do not call” laws generally don’t prohibit companies from gathering survey information over the phone, people often screen such calls using answering machines and caller ID.

Probably the biggest drawback of both surveys conducted face-to-face and administered over the phone by a person is that they are labor intensive and therefore costly. Mailing out questionnaires is costly, too, and the response rates can be rather low. Think about why that might be so: if you receive a questionnaire in the mail, it is easy to throw it in the trash; it’s harder to tell a market researcher who approaches you on the street that you don’t want to be interviewed.

By contrast, gathering survey data collected by a computer, either over the telephone or on the Internet, can be very cost-effective and in some cases free. SurveyMonkey and Zoomerang are two

Web sites that will allow you to create online questionnaires, e-mail them to up to one hundred people for free, and view the responses in real time as they come in. For larger surveys, you have to pay a subscription price of a few hundred dollars. But that still can be extremely cost-effective. The two Web sites also have a host of other features such as online-survey templates you can use to create your questionnaire, a way to set up automatic reminders sent to people who haven't yet completed their surveys, and tools you can use to create graphics to put in your final research report. To see how easy it is to put together a survey in SurveyMonkey, click on the following link: [http://help.surveymonkey.com/app/tutorials/detail/a\\_id/423](http://help.surveymonkey.com/app/tutorials/detail/a_id/423).

Like a face-to-face survey, an Internet survey can enable you to show buyers different visuals such as ads, pictures, and videos of products and their packaging. Web surveys are also fast, which is a major plus. Whereas face-to-face and mailed surveys often take weeks to collect, you can conduct a Web survey in a matter of days or even hours. And, of course, because the information is electronically gathered it can be automatically tabulated. You can also potentially reach a broader geographic group than you could if you had to personally interview people. The Zoomerang Web site allows you to create surveys in forty different languages.

Another plus for Web and computer surveys (and electronic phone surveys) is that there is less room for human error because the surveys are administered electronically. For instance, there's no risk that the interviewer will ask a question wrong or use a tone of voice that could mislead the respondents. Respondents are also likely to feel more comfortable inputting the information into a computer if a question is sensitive than they would divulging the information to another person face-to-face or over the phone. Given all of these advantages, it's not surprising that the Internet is quickly becoming the top way to collect primary data. However, like mail surveys, surveys sent to people over the Internet are easy to ignore.

Lastly, before the data collection process begins, the surveyors

and observers need to be trained to look for the same things, ask questions the same way, and so forth. If they are using rankings or rating scales, they need to be “on the same page,” so to speak, as to what constitutes a high ranking or a low ranking. As an analogy, you have probably had some teachers grade your college papers harder than others. The goal of training is to avoid a wide disparity between how different observers and interviewers record the data.

Satisfacción

Ambiente

Atención mesero

Platos a tiempo

Comida

Bebidas

Precios

¿Ha estado ya cliente en un restaurante? ☒ Sí ☐ No

¿Cuales? Comida

¿Cómo se enteró de nosotros? ☐ Boca boca ☐ Consumo en esta zona

Sus alimentos los hizo: ☒ A la carta ☐ Recomendación amigo

☐ Recomendación mesero

¿Alguna sugerencia? Los platos

Intégrese al directorio amigo

Nombre: \_\_\_\_\_ Email: \_\_\_\_\_

Training people so they know what constitutes different ratings when they are collecting data will improve the quality of the information gathered in a marketing research study.

Ricardo Rodriguez – Satisfaction survey – CC BY-NC-ND 2.0.

For example, if an observation form asks the observers to describe

whether a shopper's behavior is hurried, moderately hurried, or unhurried, they should be given an idea of what defines each rating. Does it depend on how much time the person spends in the store or in the individual aisles? How fast they walk? In other words, the criteria and ratings need to be spelled out.

## Collecting International Marketing Research Data

Gathering marketing research data in foreign countries poses special challenges. However, that doesn't stop firms from doing so. Marketing research companies are located all across the globe, in fact. Eight of the ten largest marketing research companies in the world are headquartered in the United States. However, five of these eight firms earn more of their revenues abroad than they do in the United States. There's a reason for this: many U.S. markets were saturated, or tapped out, long ago in terms of the amount that they can grow. Coke is an example. As you learned earlier in the book, most of the Coca-Cola Company's revenues are earned in markets abroad. To be sure, the United States is still a huge market when it comes to the revenues marketing research firms generate by conducting research in the country: in terms of their spending, American consumers fuel the world's economic engine. Still, emerging countries with growing middle classes, such as China, India, and Brazil, are hot new markets companies want to tap.

What kind of challenges do firms face when trying to conduct marketing research abroad? As we explained, face-to-face surveys are commonly used in third world countries to collect information from people who cannot read or lack phones and computers. However, face-to-face surveys are also common in Europe, despite the fact that phones and computers are readily available. In-home surveys are also common in parts of Europe. By contrast, in some countries, including many Asian countries, it's considered taboo or rude to try to gather information from strangers either face-to-face

or over the phone. In many Muslim countries, women are forbidden to talk to strangers.

And how do you figure out whom to research in foreign countries? That in itself is a problem. In the United States, researchers often ask if they can talk to the heads of households to conduct marketing research. But in countries in which domestic servants or employees are common, the heads of households aren't necessarily the principal shoppers; their domestic employees are (Malhotra).

Translating surveys is also an issue. Have you ever watched the TV comedians Jay Leno and David Letterman make fun of the English translations found on ethnic menus and products? Research tools such as surveys can suffer from the same problem. Hiring someone who is bilingual to translate a survey into another language can be a disaster if the person isn't a native speaker of the language to which the survey is being translated.

One way companies try to deal with translation problems is by using back translation. When back translation is used, a native speaker translates the survey into the foreign language and then translates it back again to the original language to determine if there were gaps in meaning—that is, if anything was lost in translation. And it's not just the language that's an issue. If the research involves any visual images, they, too, could be a point of confusion. Certain colors, shapes, and symbols can have negative connotations in other countries. For example, the color white represents purity in many Western cultures, but in China, it is the color of death and mourning (Zouhali-Worrall, 2008). Also, look back at the cartoon-completion exercise in Figure 10.2 “Example of a Cartoon-Completion Projective Technique”. What would women in Muslim countries who aren't allowed to converse with male sellers think of it? Chances are, the cartoon wouldn't provide you with the information you're seeking if Muslim women in some countries were asked to complete it.

One way marketing research companies are dealing with the complexities of global research is by merging with or acquiring

marketing research companies abroad. The Nielsen Company is the largest marketing research company in the world. The firm operates in more than a hundred countries and employs more than forty thousand people. Many of its expansions have been the result of acquisitions and mergers.

## 4.3 The Research Process - Steps 6 and 7

### Step 6: Analyze the Data

Step 6 involves analyzing the data to ensure it's as accurate as possible. If the research is collected by hand using a pen and pencil, it's entered into a computer. Or respondents might have already entered the information directly into a computer. For example, when Toyota goes to an event such as a car show, the automaker's marketing personnel ask would-be buyers to complete questionnaires directly on computers. Companies are also beginning to experiment with software that can be used to collect data using mobile phones.

Once all the data is collected, the researchers begin the data cleaning, which is the process of removing data that have accidentally been duplicated (entered twice into the computer) or correcting data that have obviously been recorded wrong. A program such as Microsoft Excel or a statistical program such as Predictive Analytics Software (PASW, which was formerly known as SPSS) is then used to tabulate, or calculate, the basic results of the research, such as the total number of participants and how collectively they answered various questions. The programs can also be used to calculate averages, such as the average age of respondents, their average satisfaction, and so forth. The same can be done for percentages, and other values you learned about, or will learn about, in a statistics course, such as the standard deviation, mean, and median for each question.

The information generated by the programs can be used to draw conclusions, such as what *all* customers might like or not like about an offering based on what the sample group liked or did not like. The information can also be used to spot differences among groups of people. For example, the research might show that people in one

area of the country like the product better than people in another area. Trends to predict what might happen in the future can also be spotted.

If there are any open-ended questions respondents have elaborated upon—for example, “Explain why you like the current brand you use better than any other brand”—the answers to each are pasted together, one on top of another, so researchers can compare and summarize the information. As we have explained, qualitative information such as this can give you a fuller picture of the results of the research.

Part of analyzing the data is to see if it seems sound. Does the way in which the research was conducted seem sound? Was the sample size large enough? Are the conclusions that become apparent from it reasonable?

The two most commonly used criteria used to test the soundness of a study are (1) validity and (2) reliability. A study is valid if it actually tested what it was designed to test. For example, did the experiment you ran in Second Life test what it was designed to test? Did it reflect what could really happen in the real world? If not, the research isn't valid. If you were to repeat the study, and get the same results (or nearly the same results), the research is said to be reliable. If you get a drastically different result if you repeat the study, it's not reliable. The data collected, or at least some it, can also be compared to, or reconciled with, similar data from other sources either gathered by your firm or by another organization to see if the information seems on target.

## Stage 7: Write the Research

# Report and Present Its Findings

If you end up becoming a marketing professional and conducting a research study after you graduate, hopefully you will do a great job putting the study together. You will have defined the problem correctly, chosen the right sample, collected the data accurately, analyzed it, and your findings will be sound. At that point, you will be required to write the research report and perhaps present it to an audience of decision makers. You will do so via a written report and, in some cases, a slide or PowerPoint presentation based on your written report.

The six basic elements of a research report are as follows.

1. **Title Page.** The title page explains what the report is about, when it was conducted and by whom, and who requested it.
2. **Table of Contents.** The table of contents outlines the major parts of the report, as well as any graphs and charts, and the page numbers on which they can be found.
3. **Executive Summary.** The executive summary summarizes all the details in the report in a very quick way. Many people who receive the report—both executives and nonexecutives—won't have time to read the entire report. Instead, they will rely on the executive summary to quickly get an idea of the study's results and what to do about those results.
4. **Methodology and Limitations.** The methodology section of the report explains the technical details of how the research was designed and conducted. The section explains, for example, how the data was collected and by whom, the size of the sample, how it was chosen, and whom or what it consisted of (e.g., the number of women versus men or children versus

adults). It also includes information about the statistical techniques used to analyze the data.

Every study has errors—sampling errors, interviewer errors, and so forth. The methodology section should explain these details, so decision makers can consider their overall impact. The margin of error is the overall tendency of the study to be off kilter—that is, how far it could have gone wrong in either direction. Remember how newscasters present the presidential polls before an election? They always say, “This candidate is ahead 48 to 44 percent, plus or minus 2 percent.” That “plus or minus” is the margin of error. The larger the margin of error is, the less likely the results of the study are accurate. The margin of error needs to be included in the methodology section.

5. **Findings.** The findings section is a longer, fleshed-out version of the executive summary that goes into more detail about the statistics uncovered by the research that bolster the study’s findings. If you have related research or secondary data on hand that back up the findings, it can be included to help show the study did what it was designed to do.
6. **Recommendations.** The recommendations section should outline the course of action you think should be taken based on the findings of the research and the purpose of the project. For example, if you conducted a global market research study to identify new locations for stores, make a recommendation for the locations (Mersdorf, 2009).

As we have said, these are the basic sections of a marketing research report. However, additional sections can be added as needed. For example, you might need to add a section on the competition and each firm’s market share. If you’re trying to decide on different supply chain options, you will need to include a section on that topic.

As you write the research report, keep your audience in mind. Don’t use technical jargon decision makers and other people reading the report won’t understand. If technical terms must be used,

explain them. Also, proofread the document to ferret out any grammatical errors and typos, and ask a couple of other people to proofread behind you to catch any mistakes you might have missed. If your research report is riddled with errors, its credibility will be undermined, even if the findings and recommendations you make are extremely accurate.

## You try it



*An interactive H5P element has been excluded from this version of the text. You can view it online here:*

<https://iu.pressbooks.pub/mktgwip/?p=478#h5p-8>

## Conclusion

Marketing research provides valuable and necessary insights that aid in purposeful and effective decision making. With a variety of research options, every organization has the ability to conduct research fitting for their needs.

# CHAPTER 5: SEGMENTATION, TARGETING, AND POSITIONING (STP)

## Learning Objectives

1. Students will be able to explain the importance of segmentation and targeting for effective strategic planning
2. Understand and outline the ways in which markets are segmented.
3. Describe the factors that make some markets more attractive targets than others.
4. Describe the different market-segmenting strategies companies pursue and why.
5. Describe how a product can be positioned and mapped.
6. Explain what repositioning is designed is to do.



# 5.1 The Why and How of the STP Process

## Why and How of the STP process

### The Importance of a good STP strategy

The segment(s) or group(s) of people and organizations you decide to sell to is called a **target market**. Targeted marketing, or *differentiated marketing*, means that you may differentiate some aspect of marketing (offering, promotion, distribution, price) for different groups of customers selected. This strategy really developed in the last few decades. Mass marketing, or *undifferentiated marketing*, came first. It evolved along with mass production and involves selling the same product to everybody. You can think of mass marketing as a shotgun approach: you blast out as many marketing messages as possible on every medium available as often as you can afford (Spellings, 2009). By contrast, targeted marketing is more like playing horseshoes or corn hole; you take careful aim at one type of customer (goal) with your message.

Automaker Henry Ford was very successful at both mass production and mass marketing. Ford pioneered the modern-day assembly line early in the twentieth century, which helped him cost-effectively pump out huge numbers of identical Model T automobiles. They came in only one color: black. “Any customer can have a car painted any color he wants, so long as it is black,” Ford used to joke. He also advertised in every major newspaper and persuaded all kinds of publications to carry stories about the new, inexpensive cars. By 1918, half of all cars on America’s roads

were Model Ts (Ford, 1922). You could forget about buying a custom Model T from Ford in the early 1900s. The good news? The price was right.

Figure 5.1



Ford Europe – Ford Model T – CC BY-NC 2.0.

Then Alfred P. Sloan, the head of General Motors (GM), appeared on the scene. Sloan began to segment consumers in the automobile market—to divide them up by the prices they wanted to pay and the different cars they wanted to buy. The idea was to offer a car for every target market or for every income level. His efforts were

successful, and in the 1950s, GM overtook Ford as the nation's top automaker (Manzanedo, 2005). (You might be interested to know that before GM declared bankruptcy in 2009, it was widely believed the automaker actually had too many car models. After eliminating many models including Pontiac and Oldsmobile, General Motors made a turnaround and posted a large profit for 2011.)

## Benefits of Segmenting and Targeting Markets

The story of General Motors raises an important point, which is that segmenting and targeting markets doesn't necessarily mean "skinnying down" the number of your customers. In fact, it can help you enlarge your customer base by giving you information with which to successfully adjust some component of your offering—the offering itself, its price, the way you service and market it. More specifically, the process can help you do the following:

- Avoid head-on competition with other firms trying to capture the same customers.
- Develop new offerings and expand profitable brands and products lines.
- Remarket older, less-profitable products and brands.
- Identify early adopters.
- Redistribute money and sales efforts to focus on your most profitable customers.
- Retain "at-risk" customers in danger of defecting to your competitors.

The trend today is toward more precise, targeted marketing. Figuring out "who's who" in terms of your customers involves some detective work, though—often market research. A variety of tools and research techniques can be used to segment markets. Government agencies, such as the U.S. Census Bureau, collect and

report vast amounts of population information and economic data that can reveal changing consumption trends. Technology is also making it easier for even small companies and entrepreneurs to gather information about potential customers. For example, the online game company GamePUMA.com originally believed its target market consisted of U.S. customers, but when the firm looked more closely at who was downloading games from its Web site, they were people from all over the globe. With the increased use of social media, companies are able to get information on consumers' search behavior. Loyalty cards that consumers scan at many grocery and drug stores provide an incredible amount of information on consumers' buying behavior. The great product idea you had? Companies are now using the Internet to track people's Web browsing patterns and segment them into target groups. Even small businesses are able to do this cost-effectively because they don't need their own software and programs. They can simply sign up online for products like Google's AdSense and AdWords programs. You can locate potential customers by looking at blog sites and discussion forums on the Web. Big-boards.com has thousands of discussion forums you can mine to find potential customers interested in your product. Do you have a blog? Go to BlogPoll.com, and you can embed a survey in your blog to see what people think of your idea. If you have a Web site, you can download an application onto your iPhone that will give you up-to-the-minute information and statistics on your site's visitors. Getting a read on potential target markets doesn't necessarily have to involve technology. Your own personal experience and talking to would-be buyers is an important part of the puzzle. Go where you think would-be buyers go—restaurants, malls, gyms, subways, grocery stores, daycare centers, and offices—and ask questions to find out what they do during the day, what they talk about, what products or services do you see them using, and do they seem to be having an enjoyable experience when using those products or are they frustrated?

Figure 5.2



The Healthy Choice line of frozen dinners was launched by a heart attack victim.

Ken – Healthy Choice – Sweet & Sour Chicken – CC BY-NC 2.0.

Healthy Choice frozen dinners were conceived as a result of questioning potential customers. The food-maker ConAgra launched the dinners in the late 1980s after its CEO, Charlie Harper, suffered a heart attack. One day a colleague complimented Harper on his wife's tasty low-fat turkey stew. That's when Harper realized there were people like him who wanted healthy convenience foods, so he began talking to them about what they wanted. Two years after the Healthy Choice line was launched, it controlled 10 percent of the frozen-dinner market by concentrating on the health conscious segment (Birchall, 2009).

# Segmenting and Targeting a Firm's Current Customers

Finding and attracting new customers is generally far more difficult than retaining your current customers. Think about how much time and energy you spend when you switch your business from one firm to another, even when you're buying something as simple as a haircut. If you aren't happy with your hair stylist and want to find a new hairdresser, you first have to talk to people with haircuts you like or read reviews of salons. Once you decide on a particular salon, you have to find it and explain to the new hairdresser how you want your hair cut and hope he or she gets it right. You also have to figure out what type of credit cards the new salon will accept and whether tips can be put on your credit card.

Finding new customers, getting to know them, and figuring out what they really want is also a difficult process, one that's fraught with trial and error. That's why it's so important to get to know, form close relationships, and focus selling efforts on current customers (Birchall, 2009).

In 2009, Backroads, a California company focused on adventure-based travel increased its revenues by creating a personalized marketing campaign for people who had done business with them in the past. Backroads looked at customers' past purchases, the seasons in which they took their trips, the levels of activity

associated with them, and whether or not the customers tended to vacation with children. Based on their findings, Backroads created three relevant trip suggestions for each customer and sent postcards and e-mails with links to customized Web pages reminding each customer of the trips he/she had previously booked with Backroads and suggesting new ones. “In terms of past customers, it was like off-the-charts better [than past campaigns],” says Massimo Prioreschi, the vice president of Backroads’ sales and marketing group<sup>1</sup>.

In addition to studying their buying patterns, firms also try to get a better understanding of their customers by surveying them or hiring marketing research firms to do so or by utilizing loyalty programs. (A good source for finding marketing research companies is <http://www.greenbook.org>.) For example, if you sign up to become a frequent flier with a certain airline, the airline will likely ask you a number of questions about your likes and dislikes. This information will then be entered into a customer relationship management (CRM) system, and you might be e-mailed special deals based on the routes you tend to fly. British Airways goes so far as to track the magazines its most elite fliers like to read so the publications are available to them on its planes.

Twitter is another way companies are keeping in touch with their customers and boosting their revenues. When the homemaking maven Martha Stewart schedules a book signing, she tweets her followers, and voilà, many of them show up at the bookstore she’s appearing at to buy copies. Finding ways to interact with customers that they enjoy—whether it’s meeting or “tweeting” them, or putting on events and tradeshow they want to attend—is the key to forming relationships with them.

Many firms, even small ones, are using Facebook to develop closer relationships with their customers. Hansen Cakes, a Beverly Hills (California) bakery, has about two thousand customers who visit its Facebook page. During her downtime at the bakery, employee Suzi Finer posts “cakes updates” and photos of the goodies she’s working on to the site. Along with information about the cakes,

Finer extends special offers to customers and mixes in any gossip about Hollywood celebrities she's spotted in the area. After Hansen Cakes launched its Facebook page, the bakery's sales shot up 15–20 percent. “And that's during the recession,” notes Finer, who is obviously proud of the results she's gotten (Graham, 2009).

Regardless of how well companies know their customers, it's important to remember that some customers are highly profitable, others aren't, and others actually end up costing your firm money to serve. Consequently, you will want to interact with some customers more than others. Believe it or not, some firms deliberately “untarget” unprofitable customers. Best Buy got a lot of attention (not all of it good) when it was discovered they had categorized its buyers into “personas,” or types of buyers, and created customized sales approaches for each. For example, an upper-middle-class woman was referred to as a “Jill.” A young urban man was referred to as a “Buzz.” Pesky, bargain-hunting customers that Best Buy couldn't make much of a profit from were referred to as “devils” and taken off the company's mailing lists (Marco, 2008).

The knife cuts both ways, though. Not all firms are equal in the minds of consumers, who will choose to do business with some companies rather than others. To consumers, market segmentation means: meet *my* needs—give me what *I* want<sup>2</sup>.

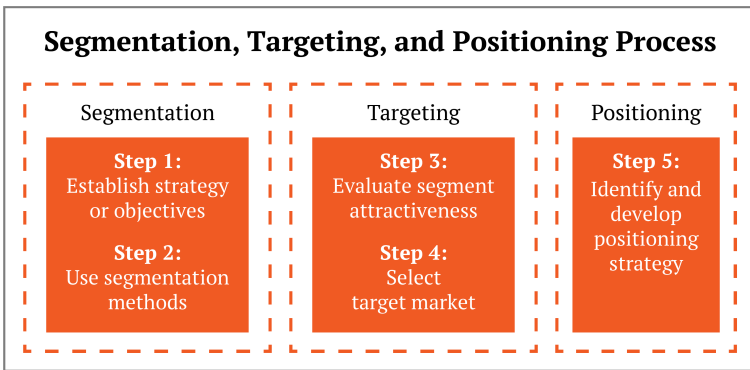
<sup>1</sup>“Lift Sales with Personalized, Multi-channel Messages: 6 Steps,” July 9, 2009, <http://www.marketingsherpa.com/article.php?id=31299> (accessed December 2, 2009).

<sup>2</sup>“Market Segmentation,” *The Market Segmentation Company*, [http://www.marketsegmentation.co.uk/segmentation\\_tmssc.htm](http://www.marketsegmentation.co.uk/segmentation_tmssc.htm) (accessed December 2, 2009).

## 5.2 The STP Process - Steps 1 and 2

### How do we get there?

This is where the STP process comes in. It is a five step process:



Courtesy of infofree.com

### Step 1: Establish the Strategy or Objectives

Step 1 is to establish the strategy or objectives. Step 2 is to apply segmentation. Step 3 is to evaluate the attractiveness of segments. Step 4 is to select the target market. Step 5 is to identify and develop a positioning strategy.

Establishing the strategy or objectives is to ensure a clear path.

The goal or purpose of the STP process needs to be clear to all involved before being undertaken. This ensures that the marketers stay focused and use resources – including time – efficiently and effectively. This is not a long step but it is an important one. Take the time to articulate the objectives.

## Step 2: Segmenting the Market

Sellers can choose to pursue consumer markets, business-to-business (B2B) markets, or both. Consequently, one obvious way to begin the segmentation process is to segment markets into these two types of groups.

Different factors influence consumers to buy certain things. Many of the same factors can also be used to segment customers. A firm will often use multiple segmentation bases, or criteria to classify buyers, to get a fuller picture of its customers and create real value for them. Each variable adds a layer of information. Think of it as being similar to the way in which your professor builds up information on a PowerPoint slide to the point at which you are able to understand the material being presented.

There are all kinds of characteristics you can use to slice and dice a market. “Big-and-tall” stores cater to the segment of population that’s larger sized. What about people with wide or narrow feet, or people with medical conditions, or certain hobbies? Next, we look primarily at the ways in which consumer markets can be segmented. Later in the chapter, we’ll look at the ways in which B2B markets can be segmented.

# Types of Segmentation Bases

## – Consumers

Table 5.1 “Common Ways of Segmenting Buyers” shows some of the different types of buyer characteristics used to segment markets. Notice that the characteristics fall into one of four segmentation categories: *behavioral*, *demographic*, *geographic*, or *psychographic*. We’ll discuss each of these categories in a moment. For now, you can get a rough idea of what the categories consist of by looking at them in terms of how marketing professionals might answer the following questions:

- **Behavioral segmentation.** What benefits do customers want, and how do they use our product?
- **Demographic segmentation.** How do the ages, races, and ethnic backgrounds of our customers affect what they buy?
- **Geographic segmentation.** Where are our customers located, and how can we reach them? What products do they buy based on their locations?
- **Psychographic segmentation.** What do our customers think about and value? How do they live their lives?

# Table 5.1 Common Ways of Segmenting Buyers

By Behavior	By Demographics	By Geography	By Psychographics
<ul style="list-style-type: none"> <li>• Benefits sought from the product</li> <li>• How often the product is used (usage rate)</li> <li>• Usage situation (daily use, holiday use, etc.)</li> <li>• Buyer's status and loyalty to product (nonuser, potential user, first-time users, regular user)</li> </ul>	<ul style="list-style-type: none"> <li>• Age/generation</li> <li>• Income</li> <li>• Gender</li> <li>• Family life cycle</li> <li>• Ethnicity</li> <li>• Family size</li> <li>• Occupation</li> <li>• Education</li> <li>• Nationality</li> <li>• Religion</li> <li>• Social class</li> </ul>	<ul style="list-style-type: none"> <li>• Region (continent, country, state, neighborhood)</li> <li>• Size of city or town</li> <li>• Population density</li> <li>• Climate</li> </ul>	<ul style="list-style-type: none"> <li>• Activities</li> <li>• Interests</li> <li>• Opinions</li> <li>• Values</li> <li>• Attitudes</li> <li>• Lifestyles</li> </ul>

# Segmenting by Behavior

Behavioral segmentation divides people and organization into groups according to how they behave with or act toward products. *Benefits segmentation*—segmenting buyers by the benefits they want from products—is very common. Take toothpaste, for example. Which benefit is most important to you when you buy a toothpaste: The toothpaste's price, ability to whiten your teeth, fight tooth decay, freshen your breath, or something else? Perhaps it's a combination of two or more benefits. If marketing professionals know what those benefits are, they can then tailor different toothpaste offerings to you (and other people like you). For example, Colgate 2-in-1 Toothpaste & Mouthwash, Whitening Icy Blast is aimed at people who want the benefits of both fresher breath and whiter teeth.

## Video Clip

A Vintage Colgate Commercial from the 1950s

([click to see video](#))

Watch the YouTube video to see a vintage Colgate toothpaste ad that describes the product's various benefits to consumers. (Onscreen kissing was evidently too racy for the times.)

Another way in which businesses segment buyers is by their usage

rates—that is, how often, if ever, they use certain products. Harrah's, an entertainment and gaming company, gathers information about the people who gamble at its casinos. High rollers, or people who spend a lot of money, are considered "VIPs." VIPs get special treatment, including a personal "host" who looks after their needs during their casino visits. Companies are interested in frequent users because they want to reach other people like them. They are also keenly interested in nonusers and how they can be persuaded to use products.

The way in which people use products is also be a basis for segmentation. Avon Skin So Soft was originally a beauty product, but after Avon discovered that some people were using it as a mosquito repellant, the company began marketing it for that purpose. Eventually, Avon created a separate product called Skin So Soft Bug Guard, which competes with repellents like Off! Similarly, Glad, the company that makes plastic wrap and bags, found out customers were using its Press'n Seal wrap in ways the company could never have imagined. The personnel in Glad's marketing department subsequently launched a Web site called 1000uses.com that contains both the company's and consumers' use tips. Some of the ways in which people use the product are pretty unusual, as evidenced by the following comment posted on the site: "I have a hedgehog who likes to run on his wheel a lot. After quite a while of cleaning a gross wheel every morning, I got the tip to use 'Press'n Seal wrap' on his wheel, making clean up much easier! My hedgegie can run all he wants, and I don't have to think about the cleanup. Now we're both GLAD!"

## Figure 5.4



Encouraging consumers to use your products for multiple purposes is a smart marketing strategy.

Last Human Getaway – Hedgehog – CC BY-NC-ND 2.0.

Although we doubt Glad will ever go to great lengths to segment the Press 'n Seal market by hedgehog owners, the firm has certainly gathered a lot of good consumer insight about the product and publicity from its 1000uses.com Web site. (Incidentally, one rainy day, the original author of this chapter made “rain boots” out of Press 'n Seal for her dog. But when she later tried to tear them off of

the dog's paws, he bit her. She is now thinking of trading him in for a hedgehog.)

## Segmenting by Demographics

Segmenting buyers by personal characteristics such as age, income, ethnicity and nationality, education, occupation, religion, social class, and family size is called demographic segmentation. Demographics are commonly utilized to segment markets because demographic information is publicly available in databases around the world. You can obtain a great deal of demographic information on the U.S. Census Bureau's Web site (<http://www.census.gov>). Other government Web sites you can tap include FedStats (<http://www.fedstats.gov>) and The World Factbook (<http://www.cia.gov/cia/publications/factbook>), which contains statistics about countries around the world. In addition to current statistics, the sites contain forecasts of demographic trends, such as whether some segments of the population are expected to grow or decline.

# Age

At this point in your life, you are probably more likely to buy a car than a funeral plot. Marketing professionals know this. That's why they try to segment consumers by their ages. You're probably familiar with some of the age groups most commonly segmented: Baby Boomers, Generation Y, Millennials, GenZ, etc.

Baby boomers are aging and the size of the group will eventually decline. By contrast, the members of GenZ have a lifetime of buying still ahead of them, which translates to a lot of potential customer lifetime value (CLV), the amount a customer will spend on a particular brand over his/her lifetime, for marketers if they can capture this group of buyers. However, a recent survey found that the latest recession had forced teens to change their spending habits and college plans and that roughly half of older Millennials reported they had no savings<sup>1</sup>.

So which group or groups should your firm target? Although it's hard to be all things to all people, many companies try to broaden their customer bases by appealing to multiple generations so they don't lose market share when demographics change.

# Income

Tweens might appear to be a very attractive market when you consider they will be buying products for years to come. But would

you change your mind if you knew that baby boomers account for 50 percent of all consumer spending in the United States? Americans over sixty-five now control nearly three-quarters of the net worth of U.S. households; this group spends \$200 billion a year on major “discretionary” (optional) purchases such as luxury cars, alcohol, vacations, and financial products.

Income is used as a segmentation variable because it indicates a group’s buying power and may partially reflect their education levels, occupation, and social classes. Higher education levels usually result in higher paying jobs and greater social status. The makers of upscale products such as Rolexes and Lamborghinis aim their products at high-income groups. However, a growing number of firms today are aiming their products at lower-income consumers. The fastest-growing product in the financial services sector is prepaid debit cards, most of which are being bought and used by people who don’t have bank accounts. Firms are finding that this group is a large, untapped pool of customers who tend to be more brand loyal than most. If you capture enough of them, you can earn a profit (von Hoffman, 2006). Based on the targeted market, businesses can determine the location and type of stores where they want to sell their products.

## Figure 5.5



Automobile companies may segment markets based on income, age, social class, and gender.

Tetyana Pryymak – CC BY-NC-ND 2.0.

Sometimes income isn't always indicative of who will buy your product. Companies are aware that many consumers want to be in higher income groups and behave like they are already part of them. Mercedes Benz's cheaper line of "C" class vehicles is designed to appeal to these consumers.

# Family Life Cycle

Family life cycle refers to the stages families go through over time and how it affects people's buying behavior. For example, if you have no children, your demand for pediatric services (medical care for children) is likely to be slim to none, but if you have children, your demand might be very high because children frequently get sick. You may be part of the target market not only for pediatric services but also for a host of other products, such as diapers, daycare, children's clothing, entertainment services, and educational products. A secondary segment of interested consumers might be grandparents who are likely to spend less on day-to-day childcare items but more on special-occasion gifts for children. Many markets are segmented based on the special events in people's lives. Think about brides (and want-to-be brides) and all the products targeted at them, including Web sites and television shows such as *Say Yes to the Dress*, *My Fair Wedding*, *Platinum Weddings*, and *Bridezillas*.

## Figure 5.7



Many markets are segmented based on people's family life cycle needs.

Wikimedia Commons – public domain.

Resorts also segment vacationers depending on where they are in their family life cycles. When you think of family vacations, you probably think of Disney resorts. Some vacation properties, such as Sandals, exclude children from some of their resorts. Perhaps they do so because some studies show that the market segment with greatest financial potential is married couples without children (Hill, et. al., 1990).

Keep in mind that although you might be able to isolate a segment in the marketplace, including one based on family life cycle, you can't make assumptions about what the people in it will want. Just like people's demographics change, so do their tastes. For example, over the past few decades U.S. families have been getting smaller.

Households with a single occupant are more commonplace than ever, but until recently, that hasn't stopped people from demanding bigger cars (and more of them) as well as larger houses, or what some people jokingly refer to as "McMansions."

The trends toward larger cars and larger houses appear to be reversing. High energy costs, the credit crunch, and concern for the environment are leading people to demand smaller houses. To attract people such as these, D. R. Horton, the nation's leading homebuilder, and other construction firms are now building smaller homes.

## Ethnicity

People's ethnic backgrounds have a big impact on what they buy. If you've visited a grocery store that caters to a different ethnic group than your own, you were probably surprised to see the types of products sold there. It's no secret that the United States is diverse. Hispanic Americans are the largest and the fastest-growing minority in the United States. Companies are going to great lengths to court this once overlooked group. In California, the health care provider Kaiser Permanente runs television ads letting members of this segment know that they can request Spanish-speaking physicians and that Spanish-speaking nurses, telephone operators, and translators are available at all of its clinics (Berkowitz, 2006). While Kaiser Permanente was one of the first companies to do this, it has become common place now.

## Segmenting by Geography

Suppose your great new product or service idea involves opening a local store. Before you open the store, you will probably want to do some research to determine which geographical areas have the best potential. For instance, if your business is a high-end restaurant, should it be located near the local college or country club? If you sell ski equipment, you probably will want to locate your shop somewhere in the vicinity of a mountain range where there is skiing. You might see a snowboard shop in the same area but probably not a surfboard shop. By contrast, a surfboard shop is likely to be located along the coast, but you probably would not find a snowboard shop on the beach.

Geographic segmentation divides the market into areas based on location and explains why the checkout clerks at stores sometimes ask for your zip code. It's also why businesses print codes on coupons that correspond to zip codes. When the coupons are redeemed, the store can find out where its customers are located—or not located. Geocoding is a process that takes data such as this and plots it on a map. Geocoding can help businesses see where prospective customers might be clustered and target them with various ad campaigns, including direct mail. One of the most popular geocoding software programs is PRIZM NE, which is produced by a company called Claritas. PRIZM NE uses zip codes and demographic information to classify the American population into segments. The idea behind PRIZM is that “you are where you live.” Combining both demographic and geographic information is referred to as geodemographics or neighborhood geography. The idea is that housing areas in different zip codes typically attract certain types of buyers with certain income levels. To see how geodemographics works, visit the following page on Claritas' Web site: <http://www.claritas.com/MyBestSegments/Default.jsp?ID=20>.

Type in your zip code, and you will see customer profiles of the types of buyers who live in your area. Table 5.4 “An Example of

Geodemographic Segmentation for 76137 (Fort Worth, TX)” shows the profiles of buyers who can be found the zip code 76137—the “Brite Lites, Li'l City” bunch, and “Home Sweet Home” set. Click on the profiles on the Claritas site to see which one most resembles you.

Table 5.4 An Example of Geodemographic Segmentation for 76137 (Fort Worth, TX)

Number	Profile Name
12	<i>Brite Lites, Li'l City</i>
19	<i>Home Sweet Home</i>
24	<i>Up-and-Comers</i>
13	<i>Upward Bound</i>
34	<i>White Picket Fences</i>

The tourism bureau for the state of Michigan was able to identify and target different customer profiles using PRIZM. Michigan's biggest travel segment are Chicagoans in certain zip codes consisting of upper-middle-class households with children—or the “kids in cul-de-sacs” group, as Claritas puts it. The bureau was also able to identify segments significantly different from the Chicago

segment, including blue-collar adults in the Cleveland area who vacation without their children. The organization then created significantly different marketing campaigns to appeal to each group.

City size and population density (the number of people per square mile) are also used for segmentation purposes. Have you ever noticed that in rural towns, McDonald's restaurants are hard to find, but Dairy Queens (DQ) are usually easy to locate? McDonald's generally won't put a store in a town of fewer than five thousand people. However, this is prime turf for DQ — because it doesn't have to compete with bigger franchises like McDonald's.

Proximity marketing is an interesting new technology firms are using to segment and target buyers geographically within a few hundred feet of their businesses using wireless technology. In some areas, you can switch your mobile phone to a “discoverable mode” while you're shopping and, if you want, get ads and deals from stores as you pass by them, which is often less expensive than hiring people to hand you a flier as you walk by<sup>3</sup>. This is frequently referred to as geofencing.

## Segmenting by Psychographics

If your offering fulfills the needs of a specific demographic group, then the demographic can be an important basis for identifying groups of consumers interested in your product. What if your product crosses several market segments? For example, the group of potential consumers for cereal could be “almost” everyone although groups of people may have different needs with regard to their cereal. Some consumers might be interested in the fiber, some consumers (especially children) may be interested in the prize that comes in the box, other consumers may be interested in the added vitamins, and still other consumers may be interested in the

type of grains. Associating these specific needs with consumers in a particular demographic group could be difficult. Marketing professionals want to know *why* consumers behave the way they do, what is of high priority to them, or how they rank the importance of specific buying criteria. Think about some of your friends who seem a lot like you. Have you ever gone to their homes and been shocked by their lifestyles and how vastly different they are from yours? Why are their families so much different from yours?

Psychographic segmentation can help fill in some of the blanks. Psychographic information is frequently gathered via extensive surveys that ask people about their activities, interests, opinion, attitudes, values, and lifestyles. One of the most well-known psychographic surveys is VALS (which originally stood for “Values, Attitudes, and Lifestyles”) and was developed by a company called SRI International in the late 1980s. SRI asked thousands of Americans the extent to which they agreed or disagreed with questions similar to the following: “My idea of fun at a national park would be to stay at an expensive lodge and dress up for dinner” and “I could stand to skin a dead animal” (Donnelly, 2002). Based on their responses to different questions, consumers were divided up into the following categories, each characterized by certain buying behaviors.

- **Innovators.** Innovators are successful, sophisticated, take-charge people with high self-esteem. Because they have such abundant resources, they exhibit all three primary motivations in varying degrees. They are change leaders and are the most receptive to new ideas and technologies. Innovators are very active consumers, and their purchases reflect cultivated tastes for upscale, niche products and services. Image is important to Innovators, not as evidence of status or power but as an expression of their taste, independence, and personality. Innovators are among the established and emerging leaders in business and government, yet they continue to seek challenges. Their lives are characterized by variety. Their

possessions and recreation reflect a cultivated taste for the finer things in life.

- **Thinkers.** Thinkers are motivated by ideals. They are mature, satisfied, comfortable, and reflective people who value order, knowledge, and responsibility. They tend to be well educated and actively seek out information in the decision-making process. They are well informed about world and national events and are alert to opportunities to broaden their knowledge. Thinkers have a moderate respect for the status quo institutions of authority and social decorum but are open to consider new ideas. Although their incomes allow them many choices, Thinkers are conservative, practical consumers; they look for durability, functionality, and value in the products they buy.
- **Achievers.** Motivated by the desire for achievement, Achievers have goal-oriented lifestyles and a deep commitment to career and family. Their social lives reflect this focus and are structured around family, their place of worship, and work. Achievers live conventional lives, are politically conservative, and respect authority and the status quo. They value consensus, predictability, and stability over risk, intimacy, and self-discovery. With many wants and needs, Achievers are active in the consumer marketplace. Image is important to Achievers; they favor established, prestige products and services that demonstrate success to their peers. Because of their busy lives, they are often interested in a variety of timesaving devices.
- **Experiencers.** Experiencers are motivated by self-expression. As young, enthusiastic, and impulsive consumers, Experiencers quickly become enthusiastic about new possibilities but are equally quick to cool. They seek variety and excitement, savoring the new, the offbeat, and the risky. Their energy finds an outlet in exercise, sports, outdoor recreation, and social activities. Experiencers are avid consumers and spend a comparatively high proportion of their income on fashion,

entertainment, and socializing. Their purchases reflect the emphasis they place on looking good and having “cool” stuff.

- **Believers.** Like Thinkers, Believers are motivated by ideals. They are conservative, conventional people with concrete beliefs based on traditional, established codes: family, religion, community, and the nation. Many Believers express moral codes that are deeply rooted and literally interpreted. They follow established routines, organized in large part around home, family, community, and social or religious organizations to which they belong. As consumers, Believers are predictable; they choose familiar products and established brands. They favor American products and are generally loyal customers.
- **Strivers.** Strivers are trendy and fun loving. Because they are motivated by achievement, Strivers are concerned about the opinions and approval of others. Money defines success for Strivers, who don’t have enough of it to meet their desires. They favor stylish products that emulate the purchases of people with greater material wealth. Many see themselves as having a job rather than a career, and a lack of skills and focus often prevents them from moving ahead. Strivers are active consumers because shopping is both a social activity and an opportunity to demonstrate to peers their ability to buy. As consumers, they are as impulsive as their financial circumstance will allow.
- **Makers.** Like Experiencers, Makers are motivated by self-expression. They express themselves and experience the world by working on it—building a house, raising children, fixing a car, or canning vegetables—and have enough skill and energy to carry out their projects successfully. Makers are practical people who have constructive skills and value self-sufficiency. They live within a traditional context of family, practical work, and physical recreation and have little interest in what lies outside that context. Makers are suspicious of new ideas and large institutions such as big business. They are respectful of government authority and organized labor but resentful of

government intrusion on individual rights. They are unimpressed by material possessions other than those with a practical or functional purpose. Because they prefer value to luxury, they buy basic products.

- **Survivors.** Survivors live narrowly focused lives. With few resources with which to cope, they often believe that the world is changing too quickly. They are comfortable with the familiar and are primarily concerned with safety and security. Because they must focus on meeting needs rather than fulfilling desires, Survivors do not show a strong primary motivation. Survivors are cautious consumers. They represent a very modest market for most products and services. They are loyal to favorite brands, especially if they can purchase them at a discount<sup>4</sup>.

To find out which category you're in, take a VALS survey at <http://www.sric-bi.com/vals/surveynew.shtml>. VALS surveys have been adapted and used to study buying behavior in other countries, too. Note that both VALS and PRIZM group buyers are based on their values and lifestyles, but PRIZM also overlays the information with geographic data. As a result, you can gauge what the buying habits of people in certain zip codes are, which can be helpful if you are trying to figure out where to locate stores and retail outlets.

The segmenting techniques we've discussed so far in this section require gathering quantitative information and data. Quantitative information can be improved with *qualitative* information you gather by talking to your customers and getting to know them. (Recall that this is how Healthy Choice frozen dinners were created.) Consumer insight is what results when you use both types of information. You want to be able to answer the following questions:

- Am I looking at the consumers the way they see themselves?
- Am I looking at life from their point of view?

## Segmentation in B2B Markets

B2B sellers, like B2C sellers, are exploring new ways to reach their target markets. Trade shows and direct mail campaigns are two traditional ways of reaching B2B markets. Now, however, firms are finding they can target their B2B customers more cost-effectively via e-mail campaigns, search-engine marketing, and “fan pages” on social networking sites. The power and the effectiveness of a well organized and coordinated sales force cannot be overemphasized as well. Companies are also creating blogs with cutting-edge content about new products and business trends of interest to their customers. For a fraction of the cost of attending a trade show to exhibit their products, B2B sellers are holding Webcasts and conducting online product demonstrations for potential customers.

B2B markets are mostly segmented using the following variables:

**Geography** – vital for organizing sales efforts but not as vital if only digital efforts are employed

**Size** – size can refer to potential sales revenue or number of employees. Different customized products and strategies may be appropriate for different size organizations

**Use of product** – if a company buys your product, what are they going to do with it? Will they resell it? Will they use it as a component of something they produce? Do they use it to maintain their operations? Understanding how the product will be used allows better customization of the offering and the messaging.

**Type of organization** – Are you selling to organizations that have a large number of regulations? Are you selling to organizations that deal with international clients regularly? Are you selling to large organizations that use centralized – or decentralized – decision

making? Each of these, and more, are going to require customization of product, messaging and distribution.

## 5.3 The STP Process - Steps 3 and 4

### Selecting Target Markets and Target-Market Strategies

Now that the population is divided into segments, we have an important decision to make. Which of these segments should we target? Since an organization has limited resources, a very strategic decision needs to be made. We need to find a segment(s) that we can satisfy, compete in, and still be profitable. If the wrong segment(s) are chosen, it can doom any initiatives the organization undertakes. Selecting the correct market segment to target is vital.

An attractive market has the following characteristics:

- It is **sizeable (large) enough** to be profitable given your operating cost. Only a tiny fraction of the consumers in China can afford to buy cars. However, because the country's population is so large (nearly 1.5 billion people), more cars are sold in China than in Europe (and in the United States, depending on the month). Three billion people in the world own cell phones. But that still leaves three billion who don't (Corbett, 2008).
- It is **growing**. Think of this in terms of potential. The middle class of India is growing rapidly, making it a very attractive market for consumer products companies. People under thirty make up the majority of the Indian population, fueling the demand for "Bollywood" (Indian-made) films.
- It is not already swamped by **competitors**, or you have found a way to stand out in a crowd. IBM used to make PCs. However,

after the marketplace became crowded with competitors, IBM sold the product line to a Chinese company called Lenovo.

- Either it is **accessible** or you can find a way to reach it. Accessibility, or the lack of it, could include geographic accessibility, political and legal barriers, technological barriers, or social barriers. For example, to overcome geographic barriers, the consumer products company Unilever hires women in third-world countries to distribute the company's products to rural consumers who lack access to stores.
- The company has the resources to compete in it. You might have a great idea to compete in the wind-power market. However, it is a business that is capital intensive. What this means is that you will either need a lot of money or must be able to raise it. You might also have to compete with the likes of T. Boone Pickens, an oil tycoon who is attempting to develop and profit from the wind-power market. Does your organization have the resources to do this? Will it allow for profitable returns?
  - To make this determination, three things are typically considered:
    - *market potential*: the size of the target market for all sellers
    - *sales potential*: if current market shares are used, how much of the market potential would belong to our organization?
    - *sales forecast*: given our anticipated strategy, what share of the market can we reasonably expect to achieve? Note that the sales forecast can be lower than the sales potential especially if it is a new product / brand on the market; it can be the same as the sales potential; and it can be larger than the sales potential if the organization intends to invest in an aggressive strategy for this segment.
- It “fits in” with your **firm's mission and objectives**. Consider

TerraCycle, which has made its mark by selling organic products in recycled packages. Fertilizer made from worm excrement and sold in discarded plastic beverage bottles is just one of its products. It wouldn't be a good idea for TerraCycle to open up a polluting, coal-fired power plant, no matter how profitable the market for the service might be.

## Target-Market Strategies: Choosing the Number of Markets to Target

Henry Ford proved that mass marketing can work—at least for a while. Mass marketing is also efficient because you don't have to tailor any part of the offering for different groups of consumers, which is more work and costs more money. The problem is that buyers are not all alike. If a competitor comes along and offers these groups a product (or products) that better meet their needs, you will lose business.

# Multisegment Marketing, also known as Differentiated Marketing

Most firms tailor their offerings in one way or another to meet the needs of different segments of customers. Because these organizations don't have all their eggs in one basket, they are less vulnerable to competition. Marriott International is an example of a company that operates in multiple market segments. The company has different types of facilities designed to meet the needs of different market segments. Marriott has invested in unique brands so consumers don't confuse the brand and the brand is not diluted. Some of the Marriott brands and their target markets are as follows:

- **Marriott Courtyard.** Targeted at over-the-road travelers.
- **Ritz-Carlton Hotels.** Targeted at luxury travelers.
- **Marriott Conference Centers.** Targeted at businesses hosting small- and midsized meetings.
- **Marriott ExecuStay.** Targeted at executives needing month-long accommodations.
- **Marriott Vacation Clubs.** Targeted at travelers seeking to buy timeshares.

A multisegment marketing strategy can allow firms to respond to demographic changes and other trends in markets. For example, the growing number of people too old to travel have the option of moving into one of Marriott's "Senior Living Services" facilities, which cater to retirees who need certain types of care. A multisegment strategy can also help companies weather an economic downturn by allowing customers to trade up or down among brands and products. Suppose you take a pay cut and can't

afford to stay at Marriott's Ritz-Carlton hotels anymore. A room at a JW Marriott—the most luxurious of the Marriott-brand hotels but cheaper than the Ritz—is available to you. A multisegment strategy can also help companies deal with the product life cycle issues. If one brand or product is “dying out,” the company has others to compete.

## Concentrated Marketing

Some firms—especially smaller ones with limited resources—engage in concentrated marketing. Concentrated marketing involves targeting a very select group of customers. Concentrated marketing can be a risky strategy because companies really *do* have all their eggs in one basket. The auto parts industry is an example. Traditionally, many North American auto parts makers have supplied parts exclusively to auto manufacturers. But when General Motors, Ford, Chrysler, and other auto companies experienced a slump in sales following the recession that began in 2008, the auto parts makers found themselves in trouble. Many of them began trying to make and sell parts for wind turbines, aerospace tools, solar panels, and construction equipment (Simon, 2009).

Niche marketing involves targeting an even more select group of consumers. When engaging in niche marketing, a company's goal is to be a big fish in a small pond instead of a small fish in a big pond<sup>1</sup>. Some examples of companies operating in niche markets include those shown in Table 5.5 “Companies That Operate in Niche Markets”.

## Table 5.5 Companies That Operate in Niche Markets

Company	Niche	Market Share (%)
Hohner	Harmonicas	85
Tetra	Tropical fish food	80
Swarovski	Crystal jewels	65
Uwatec	Snorkeling equipment	60
St. Jude Medical Center	Artificial heart valves	60

Source: José María Manzanedo, “Market Segmentation Strategies. How to Maximize Opportunities on the Potential Market,” February 20, 2005, (accessed December 1, 2009).

Microtargeting, or narrowcasting, is a new effort to isolate markets and target them. It was originally used to segment voters during elections. Microtargeting involves gathering all kinds of data available on people—everything from their tax and phone records to the catalogs they receive. One company that compiles information such as this is Acxiom. For a fee, Acxiom can provide you with a list of Hispanic consumers who own two pets, have caller ID, drive a sedan, buy certain personal care products, subscribe to certain television cable channels, read specified magazines, and have income and education levels within a given range (Schiffman & Kanuk, 2010). Clearly, microtargeting has ethical implications and privacy issues.

## One-to-One Marketing

One-to-one marketing is an idea proposed by Don Peppers and Martha Rogers in their 1994 book *The One to One Future*. The book described what life would be like after mass marketing. We would all be able to get exactly what we want from sellers, and our relationships with them would be collaborative, rather than adversarial. Are we there yet? Not quite, but it does seem to be the direction the trend toward highly targeted marketing is leading.

### Steps in One-to-One Marketing

1. **Establish short-term measures to evaluate your efforts.** Determine how you will measure your effort. Will you use higher customer satisfaction ratings, increased revenues earned per customer, number of products sold to customers, transaction costs, or another measure?
2. **Identify your customers.** Gather all the information you can about your current customers, including their buying patterns, likes, and dislikes.

When conducting business with them, include an “opt in” question that allows you to legally gather and use their phone numbers and e-mail addresses so you can remain in contact with them.

3. **Differentiate among your customers.** Determine who your best customers are in terms of what they spend and will spend in the future (their customer lifetime value), and how easy or difficult they are to serve. Identify and target customers that spend only small amounts with you but large amounts with your competitors.
4. **Interact with your customers, targeting your best ones.** Find ways and media in which to talk to customers about topics they’re interested in and enjoy. Spend the bulk of your resources interacting with your best (high-value) customers. Minimize the time and money you spend on low-value customers with low growth potential.
5. **Customize your products and marketing messages to meet their needs.** Try to customize your marketing messages and products in order to give your customers exactly what they want—whether it’s the product itself, its packaging, delivery, or the services associated with it (Harler, 2008; Peppers & Rogers, 1999; Peppers, et. al., 1999).

# Audio Clip

Interview with Apurva Ghelani (4 minutes)

<http://app.wistia.com/embed/medias/de5a1d6419>

Listen to Apurva Ghelani, a senior sales engineer, from the marketing company Air2Web, discuss how companies like NASCAR get permission from consumers to send them advertisements via their wireless devices.

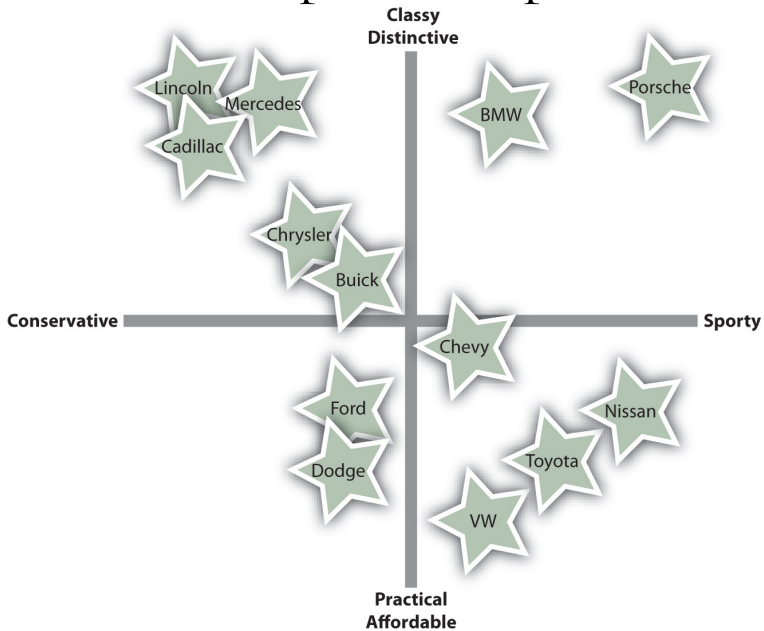
## 5.4 The STP Process - Step 5

### Step 5: Positioning and Repositioning Offerings

Why should buyers purchase your offering versus another? If your product faces competition, you will need to think about how to “position” it in the marketplace relative to competing products. After all you don’t want the product to be just another “face in the crowd” in the minds of consumers. Positioning is how consumers perceive a product relative to the competition. Companies want to have a distinctive image and offering that stands out from the competition in the minds of consumers. Determining a positioning strategy is determining how an organization chooses to compete.

One way to position your product is to plot customer survey data on a perceptual map. A perceptual map is a two-dimensional graph that visually shows where your product stands, or should stand, relative to your competitors, based on criteria important to buyers. The criteria can involve any number of characteristics—price, quality, level of customer service associated with the product, and so on. An example of a perceptual map is shown in Figure 5.10 “An Example of a Perceptual Map”. To avoid head-to-head competition with your competitors, you want to position your product somewhere on the map where your competitors aren’t clustered. Note that these perceptions may or may not be factual. Research must be done to verify the accuracy as well as the strength of the perceptions.

# Figure 5.10 An Example of a Perceptual Map



Source: Adapted from [http://en.wikipedia.org/wiki/Perceptual\\_mapping](http://en.wikipedia.org/wiki/Perceptual_mapping).

Many companies use taglines in their advertising to try to position their products in the minds of the buyer—where they want them, of course. A tagline is a catchphrase designed to sum up the essence of a product. You perhaps have heard Wendy’s tagline “It’s better than fast food.” The tagline is designed to set Wendy’s apart from restaurants like McDonald’s and Burger King—to plant the idea in consumers’ heads that Wendy’s offerings are less “fast foodish,” given the bad rap fast food gets these days.

Sometimes firms find it advantageous to reposition their products—especially if they want the product to begin appealing to different market segments. Repositioning is an effort to “move” a product to a different place in the minds of consumers. The i-house, a prefab house built by Clayton Homes, a mobile home manufacturer, is an example. According to the magazine *Popular Mechanics*, the i-house “looks like a house you’d order from IKEA, sounds like something designed by Apple, and consists of amenities—solar panels, tankless water heaters and rainwater collectors—that one would expect to come from an offbeat green company out of California selling to a high-end market” (Schwartz, 2009). A Clayton Homes spokesperson says, “Are we repositioning to go after a new market? I would think we are maintaining our value to our existing market and expanding the market to include other buyers that previously wouldn’t have considered our housing product<sup>1</sup>.”

## Figure 5.11 The Clayton i-house: “A Giant Leap from the Trailer Park”



Source: <http://www.claytonihouse.com>. <sup>1</sup>“Clayton ‘i-house’ Is Giant Leap from Trailer Park,” [Knoxvillebiz.com](http://www.knoxvillebiz.com), May 6, 2009, <http://www.knoxnews.com/news/2009/may/06/clayton-i-house-giant-leap-trailer-park/> (accessed April 13, 2012).

However, as time passes, the need to change the competition strategy may occur. This results in **repositioning**. Repositioning means that activities are undertaken to change how a brand / product / company is perceived relative to the competition.

## Conclusion

STP is a process that allows organizations to understand potential buyers better while addressing the marketing mix to meet the needs

and desires of their target market. The process starts with segmentation which divides the market into groups based on attributes pertaining to the offering. Targeting is the analysis behind choosing the segment(s) that the organization can satisfy, compete, and still be profitable. Positioning is determining the attributes most important to the target market and how we desire to be perceived compared to the competition.

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# CHAPTER 6: BUYER BEHAVIOR

## Learning Objectives

1. Students will be able to articulate the decision making processes for consumers and for business buyers
2. Students will be able to explain the difference influences on consumer buying behavior
3. Students will be able to define the different business buyer classifications and the differences in their buying characteristics and behaviors



# 6.1 Introduction to Buyer Behavior

## Introduction

An organization that wants to be successful must consider buyer behavior when developing the marketing mix. Buyer behavior is the actions people take with regard to buying and using products. Marketers must understand buyer behavior, such as how raising or lowering a price will affect the buyer's perception of the product and therefore create a fluctuation in sales, or how a specific review on social media can create an entirely new direction for the marketing mix based on the comments (buyer behavior/input) of the target market.

To understand buyer behavior, marketers must understand how customers make buying decisions. Consumers and businesses have processes for making decisions about purchases. These decision-making processes are affected by cultural, social, individual, and psychological factors.

## 6.2 Consumer Decision Making Process

When you last bought a soft drink, or a snack item, what did your decision making process look like? My guess is that you answered that question with a ‘huh?’ As consumers we do not give much thought to our process yet we go through this process constantly. As marketers, by understanding the processes, and by making strategic decisions to address each stage, we help consumer to keep this process seamless and, hopefully, simple.

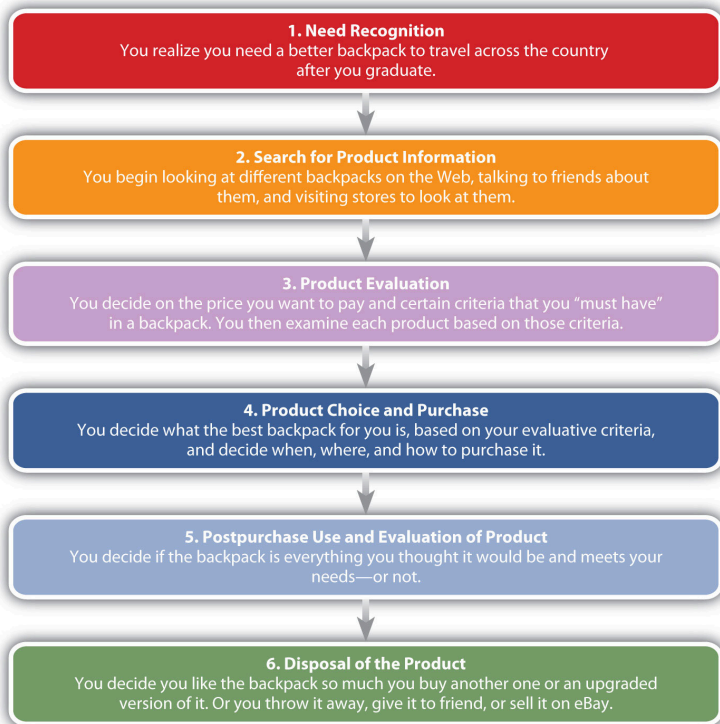
In this section, we will discuss the consumer decision making process and look at each step in detail.

### Stages in the Consumer Decision Making Process

Figure 6.1 “Stages in the Consumer’s Decision Making Process” outlines the buying stages consumers go through. At any given time, you’re probably in a buying stage for a product or service. You’re thinking about the different types of things you want or need to eventually buy, how you are going to find the best ones at the best price, and where and how will you buy them. Meanwhile, there are other products you have already purchased that you’re evaluating. Some might be better than others. Will you discard

them, and if so, how? Then what will you buy? Where does that process start?

## Figure 6.1 Stages in the Consumer's Purchasing Process



# Stage I. Need Recognition

Need recognition occurs when the consumer becomes aware of an unmet need or want.

You plan to backpack around the country after you graduate and don't have a particularly good backpack. You realize that you must get a new backpack. You may also be thinking about the job you've accepted after graduation and know that you must get a vehicle to commute. Recognizing a need may involve something as simple as running out of bread or milk or realizing that you must get a new backpack or a car after you graduate. Marketers try to show consumers how their products and services add value and help satisfy needs and wants. Do you think it's a coincidence that Gatorade, Powerade, and other beverage makers locate their machines in gymnasiums so you see them after a long, tiring workout? Previews at movie theaters are another example. How many times have you have heard about a movie and had no interest in it—until you saw the preview? Afterward, you felt like you *had* to see it.

## Stage 2. Search for Information

To make a decision, we need information about the product, the brand, or even the seller. Where does that information come from? It can be from internal sources – meaning your own knowledge and/or experiences – or it can come from external sources such as friends, reviews, web sites, packaging and salespeople.

For products such as milk and bread, you may simply recognize the need, go to the store, and buy more. However, if you are purchasing a car for the first time or need a particular type of backpack, you may need to get information on different alternatives. Maybe you have owned several backpacks and know what you like and don't like about them. Or there might be a particular brand that you've purchased in the past that you liked and want to purchase in the future. This is a great position for the company that owns the brand to be in—something firms strive for. Why? Because it often means you will limit your search and simply buy their brand again.

If what you already know about backpacks doesn't provide you with enough information, you'll probably continue to gather information from various sources. Frequently people ask friends, family, and neighbors about their experiences with products. Magazines such as *Consumer Reports* (considered an objective source of information on many consumer products) or *Backpacker Magazine* might also help you. Similar information sources are available for learning about different makes and models of cars.

Internet shopping sites such as Amazon.com have become a common source of information about products. Epinions.com is an example of consumer-generated review site. The site offers product ratings, buying tips, and price information. Amazon.com also offers product reviews written by consumers. People prefer “independent” sources such as this when they are looking for product information.

However, they also often consult non-neutral sources of information, such advertisements, brochures, company Web sites, and salespeople.

## Stage 3. Product Evaluation

Obviously, there are hundreds of different backpacks and cars available. It's not possible for you to examine all of them. In fact, good salespeople and marketing professionals know that providing you with too many choices can be so overwhelming that you might not buy anything at all. Consequently, you may use choice heuristics, or rules of thumb, that provide mental shortcuts in the decision-making process. You may also develop evaluative criteria to help you narrow down your choices. Backpacks or cars that meet your initial criteria before the consideration will determine the set of brands you'll consider for purchase.

Evaluative criteria are certain characteristics that are important to you such as the price of the backpack, the size, the number of compartments, and color. Some of these characteristics are more important than others. For example, the size of the backpack and the price might be more important to you than the color—unless, say, the color is hot pink and you hate pink. You must decide what criteria are most important and how well different alternatives meet the criteria.

## Figure 6.2



Osprey backpacks are known for their durability. The company has a special design and quality control center, and Osprey's salespeople annually take a "canyon testing" trip to see how well the company's products perform.

Companies want to convince you that the evaluative criteria you are considering reflect the strengths of their products. For example, you might not have thought about the weight or durability of the backpack you want to buy. However, a backpack manufacturer such as Osprey might remind you through magazine ads, packaging information, and its Web site that you should pay attention to these features—features that happen to be key selling points of its backpacks. Automobile manufacturers may have similar models, so don't be afraid to add criteria to help you evaluate cars in your consideration set.

## Stage 4. Product Choice and Purchase

With low-involvement purchases, consumers may go from recognizing a need to purchasing the product. However, for backpacks and cars, you decide which one to purchase after you have evaluated different alternatives. In addition to which backpack or which car, you are probably also making other decisions at this stage, including where and how to purchase the backpack (or car) and on what terms. Maybe the backpack was cheaper at one store

than another, but the salesperson there was rude. Or maybe you decide to order online because you're too busy to go to the mall. Other decisions related to the purchase, particularly those related to big-ticket items, are made at this point. For example, if you're buying a high-definition television, you might look for a store that will offer you credit or a warranty.

## Stage 5. Postpurchase Use and Evaluation

At this point in the process you decide whether the backpack you purchased is everything it was cracked up to be. Hopefully it is. If it's not, you're likely to suffer what's called cognitive dissonance. Typically, dissonance occurs when a buyer is questioning their decision. Consumers are more likely to experience dissonance with products that are relatively expensive and that are purchased infrequently.

You want to feel good about your purchase, but you don't. You begin to wonder whether you should have waited to get a better price, purchased something else, or gathered more information first. Consumers commonly feel this way, which is a problem for sellers. If you don't feel good about what you've purchased from them, you might return the item and never purchase anything from them again. Or, worse yet, you might tell everyone you know how bad the product was.

Companies do various things to try to limit dissonance. For smaller items, they might offer a money back guarantee or they might encourage their salespeople to tell you what a great purchase you made. How many times have you heard a salesperson say, “That outfit looks so great on you!” For larger items, companies might offer a warranty, along with instruction booklets, and a toll-free troubleshooting line to call or they might have a salesperson call you to see if you need help with product. Automobile companies may offer loaner cars when you bring your car in for service.

Companies may also try to set expectations in order to satisfy customers. Service companies such as restaurants do this frequently. Think about when the hostess tells you that your table will be ready in 30 minutes. If they seat you in 15 minutes, you are much happier than if they told you that your table would be ready in 15 minutes, but it took 30 minutes to seat you. Similarly, if a store tells you that your pants will be altered in a week and they are ready in three days, you’ll be much more satisfied than if they said your pants would be ready in three days, yet it took a week before they were ready.

## Stage 6. Disposal of the Product

There was a time when neither manufacturers nor consumers thought much about how products got disposed of, so long as

people bought them. But that's changed. How products are being disposed of is becoming extremely important to consumers and society in general. Computers and batteries, which leak chemicals into landfills, are a huge problem. Consumers don't want to degrade the environment if they don't have to, and companies are becoming more aware of this fact.

Take for example Crystal Light, a water-based beverage that's sold in grocery stores. You can buy it in a bottle. However, many people buy a concentrated form of it, put it in reusable pitchers or bottles, and add water. That way, they don't have to buy and dispose of plastic bottle after plastic bottle, damaging the environment in the process. Windex has done something similar with its window cleaner. Instead of buying new bottles of it all the time, you can purchase a concentrate and add water. You have probably noticed that most grocery stores now sell cloth bags consumers can reuse instead of continually using and discarding of new plastic or paper bags.

## Figure 3.II



The hike up to Mount Everest used to be pristine. Now it looks more like this. Who's responsible? Are consumers or companies responsible, or both?

jqpubliq – Recycling Center Pile – CC BY-SA 2.0.

Other companies are less concerned about conservation than they are about planned obsolescence. Planned obsolescence is a deliberate effort by companies to make their products obsolete, or unusable, after a period of time. The goal is to improve a company's sales by reducing the amount of time between the repeat purchases consumers make of products. When a software developer introduces a new version of product, it is usually designed to be incompatible with older versions of it.

Products that are disposable are another way in which firms have managed to reduce the amount of time between purchases. Disposable lighters are an example. Do you know anyone today that owns a nondisposable lighter? Believe it or not, prior to the 1960s, scarcely anyone could have imagined using a cheap disposable lighter. There are many more disposable products today than there were in years past—including everything from bottled water and

individually wrapped snacks to single-use eye drops and cell phones.

Figure 3.12



Disposable lighters came into vogue in the United States in the 1960s. You probably don't own a cool, nondisposable lighter like one of these, but you don't have to bother refilling it with lighter fluid either.

Europeana staff photographer - A trench art lighter - public domain.

# You Try It



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*<https://iu.pressbooks.pub/mktgwip/?p=147#h5p-9>*

## 6.3 Types of Consumer Decisions

As you read through the stages of the decision making process, did you think “Wait a minute. I do this sometimes but not all the time”? That is indicative of the different levels of involvement within the decision making process. In this section, we will examine this difference in more detail.

### Levels of Involvement in Decision Making

As you have seen, many factors influence a consumer’s behavior. Depending on a consumer’s experience and knowledge, some consumers may be able to make quick purchase decisions and other consumers may need to get information and be more involved in the decision process before making a purchase. The *level of involvement* reflects how personally important or interested you are in consuming a product and how much information you need to make a decision. The level of involvement in buying decisions may be considered a continuum from decisions that are fairly routine (consumers are not very involved) to decisions that require extensive thought and a high level of involvement. Whether a decision is low, high, or limited, involvement varies by consumer, not by product, although some products such as purchasing a house typically require a high-involvement for all consumers. Consumers with no experience purchasing a product may have more involvement than someone who is replacing a product.

You have probably thought about many products you want or need but never did much more than that. At other times, you’ve probably looked at dozens of products, compared them, and then

decided not to purchase any one of them. When you run out of products such as milk or bread that you buy on a regular basis, you may buy the product as soon as you recognize the need because you do not need to search for information or evaluate alternatives. As Nike would put it, you “just do it.” Low-involvement decisions are, however, typically products that are relatively inexpensive and pose a low risk to the buyer if they makes a mistake by purchasing them.

Consumers often engage in **routine, or habitual, behavior** when they make low-involvement decisions—that is, they make automatic purchase decisions based on limited information or information they have gathered in the past. For example, if you always order a Diet Coke at lunch, you’re engaging in routine response behavior. You may not even think about other drink options at lunch because your routine is to order a Diet Coke, and you simply do it. Similarly, if you run out of Diet Coke at home, you may buy more without any information search.

Some low-involvement purchases are made with no planning or previous thought. These buying decisions are called **impulse buying**. While you’re waiting to check out at the grocery store, perhaps you see a magazine with Angelina Jolie the latest celebrity or influencer on the cover and buy it on the spot simply because you want it. You might see a roll of tape at a check-out stand and remember you need one or you might see a bag of chips and realize you’re hungry or just want them.

By contrast, high-involvement decisions carry a higher risk to buyers if they fail, are complex, and/or have high price tags. A car, a house, and an insurance policy are examples. These items are not purchased often but are relevant and important to the buyer. Buyers don’t engage in routine response behavior when purchasing high-involvement products. Instead, consumers engage in what’s called **extended problem solving**, where they spend a lot of time comparing different aspects such as the features of the products, prices, and warranties.

High-involvement decisions can cause buyers a great deal of cognitive (postpurchase) dissonance (anxiety) if they are unsure

about their purchases or if they had a difficult time deciding between two alternatives. Companies that sell high-involvement products are aware that dissonance can be a problem. Frequently, they try to offer consumers a lot of information about their products, including why they are superior to competing brands and how they won't let the consumer down. Salespeople may be utilized to answer questions and do a lot of customer "hand-holding."

Figure 6.3



Allstate's "You're in Good Hands" advertisements are designed to convince consumers that the insurance company won't let them down.

Mike Mozart – Allstate, – CC BY 2.0.

**Limited problem solving** falls somewhere between low-involvement (routine) and high-involvement (extended problem solving) decisions. Consumers engage in limited problem solving when they already have some information about a good or service but continue to search for a little more information. Assume you need a new backpack for a hiking trip. While you are familiar with backpacks, you know that new features and materials are available since you purchased your last backpack. You're going to spend some time looking for one that's decent because you don't want it to fall apart while you're traveling and dump everything you've packed on a hiking trail. You might do a little research online and come to a decision relatively quickly. You might consider the choices available at your favorite retail outlet but not look at every backpack at every outlet before making a decision. Or you might rely on the advice of a person you know who's knowledgeable about backpacks. In some way you shorten or limit your involvement and the decision-making process.

Products, such as chewing gum, which may be low-involvement for many consumers, often use advertising such as commercials and sales promotions such as coupons to reach many consumers at once. Companies also try to sell products such as gum in as many locations as possible. Many products that are typically high-involvement such as automobiles may use more personal selling to answer consumers' questions. Brand names can also be very important regardless of the consumer's level of purchasing involvement. Consider a low- versus high-involvement decision—say, purchasing a tube of toothpaste versus a new car. You might routinely buy your favorite brand of toothpaste, not thinking much about the purchase (engage in routine response behavior), but not be willing to switch to another brand either. Having a brand you like saves you “search time” and eliminates the evaluation period because you know what you're getting.

When it comes to the car, you might engage in extensive problem solving but, again, only be willing to consider a certain brand or brands. For example, in the 1970s, American-made cars had such a poor reputation for quality that buyers joked that a car that's "not Jap [Japanese made] is crap." The quality of American cars is very good today, but you get the picture. If it's a high-involvement product you're purchasing, a good brand name is probably going to be very important to you. That's why the manufacturers of products that are typically high-involvement decisions can't become complacent about the value of their brands.

## You Do It!



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## 6.4 Influences on Consumer Buying Behavior

You've been a consumer with purchasing power for much longer than you probably realize—since the first time you were asked which cereal or toy you wanted. Over the years, you've developed rules of thumb or mental shortcuts, called heuristics, providing a systematic way to choose among alternatives, even if you aren't aware of it. Other consumers follow a similar process, but different people, no matter how similar they are, make different purchasing decisions. You might be very interested in purchasing a Smart Car, but your best friend might not. Consumer behavior is influenced by many things, including environmental and marketing factors, the situation, personal and psychological factors, family, and culture. Businesses try to figure out *trends* so they can reach the people most likely to buy their products in the most cost-effective way possible. Businesses often try to influence a consumer's behavior with things they can control such as the layout of a store, music, grouping and availability of products, pricing, and advertising. While some influences may be temporary and others are long lasting, different factors can affect how buyers behave—whether they influence you to make a purchase, buy additional products, or buy nothing at all. Let's now look at some of the influences on consumer behavior in more detail.

# Situational Influences

Have you ever been in a department store and couldn't find your way out? No, you aren't necessarily directionally challenged. Marketing professionals take physical factors such as a store's design and layout into account when they are designing their facilities. Presumably, the longer you wander around a facility, the more you will spend. Grocery stores frequently place bread and milk products on the opposite ends of the stores because people often need both types of products. To buy both, they have to walk around an entire store, which of course, is loaded with other items they might see and purchase.

Store locations also influence behavior. Starbucks has done a good job in terms of locating its stores. It has the process down to a science; you can scarcely drive a few miles down the road without passing a Starbucks. You can also buy cups of Starbucks coffee at many grocery stores and in airports—virtually any place where there is foot traffic. These are just a few examples of situational influences or things that impact decision making. Below is a discussion of some other examples.

## Physical factors

Physical factors that firms can control, such as the layout of a store, music played at stores, the lighting, temperature, and even the smells you experience are called atmospherics. Perhaps you've visited the office of an apartment complex and noticed how great it looked and even smelled. It's no coincidence. The managers of the complex were trying to get you to stay for a while and have a look at their facilities. Research shows that "strategic fragrancing" results in customers staying in stores longer, buying more, and leaving with

better impressions of the quality of stores' services and products. Mirrors near hotel elevators are another example. Hotel operators have found that when people are busy looking at themselves in the mirrors, they don't feel like they are waiting as long for their elevators (Moore, 2008).

Not all physical factors are under a company's control, however. Take weather, for example. Rainy weather can be a boon to some companies, like umbrella makers such as Totes, but a problem for others. Beach resorts, outdoor concert venues, and golf courses suffer when it is raining heavily. Businesses such as automobile dealers also have fewer customers. Who wants to shop for a car in the rain?

Firms often attempt to deal with adverse physical factors such as bad weather by offering specials during unattractive times. For example, many resorts offer consumers discounts to travel to beach locations during hurricane season. Having an online presence is another way to cope with weather-related problems. What could be more comfortable than shopping at home? If it's raining too hard to drive to the GAP, REI, or Abercrombie & Fitch, you can buy products from these companies and many others online. You can shop online for cars, too, and many restaurants take orders online and deliver.

Crowding is another situational factor. Have you ever left a store and not purchased anything because it was just too crowded? Some studies have shown that consumers feel better about retailers who attempt to prevent overcrowding in their stores. However, other studies have shown that to a certain extent, crowding can have a positive impact on a person's buying experience. The phenomenon is often referred to as "herd behavior" (Gaumer & Leif, 2005).

If people are lined up to buy something, you want to know why. Should you get in line to buy it too? Herd behavior helped drive up the price of houses in the mid-2000s before the prices for them rapidly fell. Unfortunately, herd behavior has also led to the deaths of people. In 2008, a store employee was trampled to death by an early morning crowd rushing into a Walmart to snap up holiday bargains.

# Time

The time of day, time of year, and how much time consumers feel like they have to shop affect what they buy. Researchers have even discovered whether someone is a “morning person” or “evening person” affects shopping patterns. Have you ever gone to the grocery store when you are hungry or after pay day when you have cash in your pocket? When you are hungry or have cash, you may purchase more than you would at other times. Seven-Eleven Japan is a company that’s extremely in tune to time and how it affects buyers. The company’s point-of-sale systems at its checkout counters monitor what is selling well and when, and stores are restocked with those items immediately—sometimes via motorcycle deliveries that zip in and out of traffic along Japan’s crowded streets. The goal is to get the products on the shelves when and where consumers want them. Seven-Eleven Japan also knows that, like Americans, its customers are “time starved.” Shoppers can pay their utility bills, local taxes, and insurance or pension premiums at Seven-Eleven Japan stores, and even make photocopies (Bird, 2002).

Companies worldwide are aware of people’s lack of time and are finding ways to accommodate them. Some doctors’ offices offer drive-through shots for patients who are in a hurry and for elderly patients who find it difficult to get out of their cars. Tickets.com allows companies to sell tickets by sending them to customers’ mobile phones when they call in. The phones’ displays are then read by barcode scanners when the ticket purchasers arrive at the events they’re attending. Likewise, if you need customer service from Amazon.com, there’s no need to wait on the telephone. If you have an account with Amazon, you just click a button on the company’s Web site and an Amazon representative calls you immediately.

## Social Influences

Social influences refer to people who influence the decision making process. This can be people you know, associate with, or strangers. You have seen Girl Scouts selling cookies outside grocery stores and other retail establishments and purchased nothing from them, but what if your neighbor's daughter is selling the cookies? Are you going to turn her down or be a friendly neighbor and buy a box (or two)?

Companies like Pampered Chef that sell their products at parties understand that the social situation makes a difference. When you're at a friend's Pampered Chef party, you don't want to look cheap or disappoint your friend by not buying anything. Certain social situations can also make you less willing to buy products. You might spend quite a bit of money each month eating at fast-food restaurants like McDonald's and Subway. Where do you take someone for your first date? Some people might take a first date to Subway, but other people would perhaps choose a restaurant that's more upscale. Likewise, if you have turned down a drink or dessert on a date because you were worried about what the person you were with might have thought, your consumption was affected by your social situation (Matilla & Wirtz, 2008).

# Culture

Culture refers to the shared beliefs, customs, behaviors, and attitudes that characterize a society. Culture is a handed down way of life and is often considered the broadest influence on a consumer's behavior. Your culture prescribes the way in which you should live and has a huge effect on the things you purchase.

Even cultures that share many of the same values as the United States can be quite different. Following the meltdown of the financial markets in 2008, countries around the world were pressed by the United States to engage in deficit spending to stimulate the worldwide economy. The plan was a hard sell both to German politicians and to the German people in general. At the time, most Germans didn't own credit cards and running up a lot of debt is something people in that culture generally don't do. Credit card companies such as Visa, American Express, and MasterCard must understand cultural perceptions about credit.

## Subcultures

A subculture is a group of people within a culture who are different from the dominant culture but have something in common with one another such as common interests, vocations or jobs, religions, ethnic backgrounds, and geographic locations. The fastest-growing

subculture in the United States consists of people of Hispanic origin, followed by Asian Americans, and African Americans. The purchasing power of U.S. Hispanics continues to grow, exceeding \$1 trillion in 2010<sup>4</sup>. Home Depot has launched a Spanish version of its Web site. Walmart is in the process of converting some of its Neighborhood Markets into stores designed to appeal to Hispanics. The Supermercado de Walmart stores are located in Hispanic neighborhoods and feature elements such as cafés serving Latino pastries and coffee and full meat and fish counters (Birchall, 2009). Marketing products based on the ethnicity of consumers is useful but may become harder to do in the future because the boundaries between ethnic groups are blurring.

## Figure 6.4



Care to join the subculture of the “Otherkin”? Otherkins are primarily Internet users who believe they are reincarnations of mythological or legendary creatures—angels, demons, vampires—you name it. To read more about the Otherkins and seven other bizarre subcultures, visit [http://www.oddee.com/item\\_96676.aspx](http://www.oddee.com/item_96676.aspx).

Zior\_ – Another Vampire Photo – CC BY-NC-ND 2.0.

Subcultures, such as college students, can develop in response to people's interests, similarities, and behaviors that allow marketing professionals to design specific products for them. You have probably heard of the hip-hop subculture, people who engage in extreme types of sports such as helicopter skiing or people who play the fantasy game Dungeons and Dragons.

## Social Class

A social class is a group of people who have the same social, economic, or educational status in society<sup>5</sup>. While income helps define social class, the primary variable determining social class is occupation. To some degree, consumers in the same social class exhibit similar purchasing behavior. In many countries, people are expected to marry within their own social class. When asked, people tend to say they are middle class, which is not always correct. Have you ever been surprised to find out that someone you knew who was wealthy drove a beat-up old car or wore old clothes and shoes or that someone who isn't wealthy owns a Mercedes or other upscale vehicle? While some products may appeal to people in a social class, you can't assume a person is in a certain social class because they either have or don't have certain products or brands.

In a recession when luxury buyers are harder to come by, the makers of upscale brands may want their customer bases to be as large as possible. However, companies don't want to risk

“cheapening” their brands. That’s why, for example, Smart Cars, which are made by BMW, don’t have the BMW label on them. For a time, Tiffany’s sold a cheaper line of silver jewelry to a lot of customers. However, the company later worried that its reputation was being tarnished by the line. Keep in mind that a product’s price is to some extent determined by supply and demand. Luxury brands therefore try to keep the supply of their products in check so their prices remain high.

## Figure 3.7



The whiskey brand Johnnie Walker has managed to expand its market share without cheapening the brand by producing a few lower-priced versions of the whiskey and putting them in bottles with different labels.

Carlos Ayala – Johnnie Walker Black Label – CC BY-NC 2.0.

Some companies, such as Johnnie Walker, have managed to capture

market share by introducing “lower echelon” brands without damaging their luxury brands. The company’s whiskeys come in bottles with red, green, blue, black, and gold labels. The blue label is the company’s best product. Every blue-label bottle has a serial number and is sold in a silk-lined box, accompanied by a certificate of authenticity<sup>7</sup>.

## Reference Groups and Opinion Leaders

Reference groups are groups (social groups, work groups, family, or close friends) a consumer identifies with and may want to join. They influence consumers’ attitudes and behavior. If you have ever dreamed of being a professional player of basketball or another sport, you have an aspirational reference group. That’s why, for example, Nike hires celebrities such as Michael Jordan to pitch the company’s products. There may also be dissociative groups or groups where a consumer does not want to be associated.

Opinion leaders are people with expertise in certain areas. Consumers respect these people and often ask their opinions before they buy goods and services. An information technology (IT) specialist with a great deal of knowledge about computer brands is an example. These people’s purchases often lie at the forefront of leading trends. The IT specialist is probably a person who has the

latest and greatest tech products, and his opinion of them is likely to carry more weight with you than any sort of advertisement.

Today's companies are using different techniques to reach opinion leaders thus reaching those who respect the opinion leader. Influencers – typically via social media – are one very important type of opinion leader. Celebrities, as mentioned before, can also be used as opinion leaders. There is a big risk with marketing strategies centered around opinion leaders though. If the opinion leader becomes involved in a scandal or some other negative publicity is associated with them, it could turn potential buyers away from anything supporting those individuals, including your brand.

## Family

Most market researchers consider a person's family to be one of the most important influences on their buying behavior. Like it or not, you are more like your parents than you think, at least in terms of your consumption patterns. Many of the things you buy and don't buy are a result of what your parents bought when you were growing up. Products such as the brand of soap and toothpaste your parents bought and used, and even the “brand” of politics they leaned toward (Democratic or Republican) are examples of the products you may favor as an adult.

Companies are interested in which family members have the most influence over certain purchases. Children have a great deal of influence over many household purchases. For example, in 2003 nearly half (47 percent) of nine- to seventeen-year-olds were asked by parents to go online to find out about products or services, compared to 37 percent in 2001. IKEA used this knowledge to design their showrooms. The children's bedrooms feature fun beds with appealing comforters so children will be prompted to identify and ask for what they want<sup>8</sup>.

Marketing to children has come under increasing scrutiny. Some critics accuse companies of deliberately manipulating children to nag their parents for certain products. For example, even though

tickets for Hannah Montana concerts ranged from hundreds to thousands of dollars, the concerts often still sold out. However, as one writer put it, exploiting “pester power” is not always ultimately in the long-term interests of advertisers if it alienates kids’ parents (Waddell, 2009).

To market effectively, companies need to recognize the difference between buyers and users of their product. Sometimes, that is the same individual. However, in many families, these roles represent two different individuals.

## Psychological Influences

# Personality and Self-Concept

Personality describes a person’s disposition, helps show why people are different, and encompasses a person’s unique traits.

Do personality traits predict people’s purchasing behavior? Can companies successfully target certain products to people based on their personalities? How do you find out what personalities consumers have? Are extraverts wild spenders and introverts penny pinchers?

The link between people’s personalities and their buying behavior is somewhat unclear. Some research studies have shown that “sensation seekers,” or people who exhibit extremely high levels

of openness, are more likely to respond well to advertising that's violent and graphic. The problem for firms is figuring out "who's who" in terms of their personalities.

Marketers have had better luck linking people's self-concepts to their buying behavior. Your self-concept is how you see yourself—be it positive or negative. Your ideal self is how you would *like* to see yourself—whether it's prettier, more popular, more eco-conscious, or more "goth," and others' self-concept, or how you think others see you, also influences your purchase behavior. Marketing researchers believe people buy products to enhance how they feel about themselves—to get themselves closer to their ideal selves.

The slogan "Be All That You Can Be," which for years was used by the U.S. Army to recruit soldiers, is an attempt to appeal to the self-concept. Presumably, by joining the U.S. Army, you will become a better version of yourself, which will, in turn, improve your life. Many beauty products and cosmetic procedures are advertised in a way that's supposed to appeal to the ideal self people seek. All of us want products that improve our lives.

## Lifestyle

If you have ever watched the television show *Wife Swap*, you can see that despite people's similarities (e.g., being middle-class Americans who are married with children), their lifestyles can differ radically. To better understand and connect with consumers, companies interview or ask people to complete questionnaires about their lifestyles or their activities, interests, and opinions (often referred to as AIO statements). Consumers are not only asked about products they like, where they live, and what their demographics are but also about what they do—that is, how they spend their time and what their priorities, values, opinions, and general outlooks on the world are. Where do they go other than work? Who do they like to talk to? What do they talk about? Researchers hired by Procter & Gamble

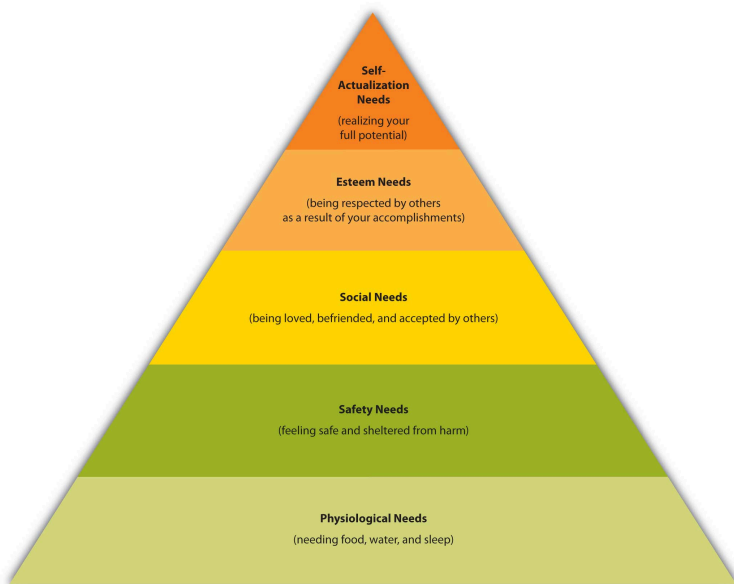
have gone so far as to follow women around for weeks as they shop, run errands, and socialize with one another (Berner, 2006). Other companies have paid people to keep a daily journal of their activities and routines.

A number of research organizations examine lifestyle and psychographic characteristics of consumers. Psychographics combines the lifestyle traits of consumers and their personality styles with an analysis of their attitudes, activities, and values to determine groups of consumers with similar characteristics. One of the most widely used systems to classify people based on psychographics is the VALS (Values, Attitudes, and Lifestyles) framework. Using VALS to combine psychographics with demographic information such as marital status, education level, and income provide a better understanding of consumers.

## Motivation

Motivation is the 6.5“Maslow’s Hierarchy of Needs”.

# Figure 6.5 Maslow’s Hierarchy of Needs



Maslow theorized that people have to fulfill their basic needs—food, water, and sleep—before they can begin fulfilling higher-level needs. Have you ever gone shopping when you were tired or hungry? Even if you were shopping for something that would make you the envy of your friends (maybe a new car) you probably wanted to sleep or eat even more. (Forget the car. Just give me a nap and a candy bar.)

The need for food is recurring. Other needs, such as shelter, clothing, and safety, tend to be enduring. Still other needs arise at different points in time in a person's life. For example, during grade school and high school, your *social* needs probably rose to the forefront. You wanted to have friends and get a date. Perhaps this prompted you to buy certain types of clothing or electronic devices. After high school, you began thinking about how people would view you in your “station” in life, so you decided to pay for college and get a professional degree, thereby fulfilling your need for *esteem*. If you're lucky, at some point you will realize Maslow's state of *self-actualization*. You will believe you have become the person in life that you feel you were meant to be.

Following the economic crisis that began in 2008, the sales of new automobiles dropped sharply virtually everywhere around the world—except the sales of Hyundai vehicles. Hyundai understood that people needed to feel secure and safe and ran an ad campaign that assured car buyers they could return their vehicles if they couldn't make the payments on them without damaging their credit. Seeing Hyundai's success, other carmakers began offering similar programs. Likewise, banks began offering “worry-free” mortgages to ease the minds of would-be homebuyers. For a fee of about \$500, First Mortgage Corp., a Texas-based bank, offered to make a homeowner's mortgage payment for six months if he or she got laid off (Jares, 2010).

While achieving self-actualization may be a goal for many individuals in the United States, consumers in Eastern cultures may focus more on belongingness and group needs. Marketers look at cultural differences in addition to individual needs. The importance of groups affects advertising (using groups versus individuals) and product decisions.

Another very important part of motivation – especially with consumers – is known as patronage motives. Consumers can purchase the same product from many different brick and mortar retailers, online retailers, or other consumers. Why do they keep coming back to the same source? Understanding why consumers buy from specific retailers is vital to a good marketing strategy.

## Perception

Perception is how you interpret the world around you and make

sense of it in your brain. You do so via stimuli that affect your different senses—sight, hearing, touch, smell, and taste. How you combine these senses also makes a difference. For example, in one study, consumers were blindfolded and asked to drink a new brand of clear beer. Most of them said the product tasted like regular beer. However, when the blindfolds came off and they drank the beer, many of them described it as “watery” tasting (Ries, 2009).

Consumers are bombarded with messages on television, radio, magazines, the Internet, and even bathroom walls. The average consumer is exposed to about three thousand advertisements per day (Lasn, 1999). Consumers are surfing the Internet, watching television, and checking their cell phones for text messages simultaneously. Some, but not all, information makes it into our brains. Selecting information we see or hear (e.g., television shows or magazines) is called **selective exposure**.

Have you ever read or thought about something and then started noticing ads and information about it popping up everywhere? Many people are more perceptive to advertisements for products they need. Selective exposure is the process of filtering out information based on how relevant it is to you. It's been described as a “suit of armor” that helps you filter out information you *don't* need. At other times, people forget information, even if it's quite relevant to them, which is called **selective retention**. Often the information contradicts the person's belief. A longtime chain smoker who forgets much of the information communicated during an antismoking commercial is an example. To be sure their advertising messages get through to you and you remember them, companies use repetition. How tired of iPhone commercials were you before they tapered off? How often do you see the same commercial aired during a single television show?

Another potential problem that advertisers (or your friends) may experience is **selective distortion** or misinterpretation of the intended message. Promotions for weight loss products show models that look slim and trim after using their products, and consumers may believe they will look like the model if they use the

product. They misinterpret other factors such as how the model looked before or how long it will take to achieve the results. Similarly, have you ever told someone a story about a friend and that person told another person who told someone else? By the time the story gets back to you, it is completely different. The same thing can happen with many types of messages.

Using surprising stimuli or shock advertising is also a technique that works. One study found that shocking content increased attention, benefited memory, and positively influenced behavior among a group of university students (Dahl, et. al., 2003).

Subliminal advertising is the opposite of shock advertising and involves exposing consumers to marketing stimuli such as photos, ads, and messages by stealthily embedding them in movies, ads, and other media. Although there is no evidence that subliminal advertising works, people are still fascinated by the idea of it.

## Learning

Learning refers to the process by which consumers change their behavior after they gain information or experience. It's the reason you don't buy a bad product twice. Learning doesn't just affect what you buy; it affects how you shop. People with limited experience about a product or brand generally seek out more information than people who have used a product before.

Companies try to get consumers to learn about their products in different ways. Car dealerships offer test drives. Pharmaceutical reps leave samples and brochures at doctor's offices. Other companies give consumers free samples. To promote its new line of coffees, McDonald's offered customers free samples to try. Have you ever eaten the food samples in a grocery store? While sampling is an expensive strategy, it gets consumers to try the product and many customers buy it, especially right after trying in the store.

Another kind of learning is **operant conditioning**, which rewards the desired behavior. Learning occurs through repetitive behavior

that has positive or negative consequences. Companies engage in operant conditioning by rewarding consumers, which cause consumers to want to repeat their purchasing behaviors. Prizes and toys that come in Cracker Jacks and McDonald's Happy Meals, free tans offered with gym memberships, a free sandwich after a certain number of purchases, and free car washes when you fill up your car with a tank of gas are examples.

Another learning process called classical conditioning occurs by associating a conditioned stimulus (CS) with an unconditioned stimulus (US) to get a particular response. The more frequently the CS is linked with the US, the faster learning occurs and this is what advertisers and businesses try to do. Think about a meal at a restaurant where the food was really good and you went with someone special. You like the person and want to go out again. It could be that classical conditioning occurred. That is, the food produced a good feeling and you may associate the person with the food, thus producing a good feeling about the person.

Repeated exposure is another way consumers learn about products, and retain the information.

## Attitude

Attitudes are “mental positions” or emotional feelings, favorable or unfavorable evaluations, and action tendencies people have about products, services, companies, ideas, issues, or institutions<sup>3</sup>. Attitudes tend to be enduring, and because they are based on people's values and beliefs, they are hard to change. Companies want people to have positive feelings about their offerings. A few years ago, KFC began running ads to the effect that fried chicken was healthy—until the U.S. Federal Trade Commission told the company to stop. Wendy's slogan that its products are “way better than fast food” is another example. Fast food has a negative connotation, so Wendy's is trying to get consumers to think about its offerings as being better.

An example of a shift in consumers' attitudes occurred when

the taxpayer-paid government bailouts of big banks that began in 2008 provoked the wrath of Americans, creating an opportunity for small banks not involved in the credit bailout and subprime mortgage mess. The Worthington National Bank, a small bank in Fort Worth, Texas, ran billboards reading: “Did Your Bank Take a Bailout? We didn’t.” Another read: “Just Say NO to Bailout Banks. Bank Responsibly!” The Worthington Bank received tens of millions in new deposits soon after running these campaigns (Mantone, 2009).

## You Try It!



An interactive H5P element has been excluded from this version of the text. You can view it online here:

<https://iu.pressbooks.pub/mktgwip/?p=152#h5p-11>

# 6.5 Characteristics of B2B Markets

## How are B2B Markets Different Than Consumer Markets?

Business-to-business (B2B) markets differ from business-to-consumer (B2C) markets in many ways. For one, the number of products sold in business markets dwarfs the number sold in consumer markets. Suppose you buy a five-hundred-dollar computer from Dell. The sale amounts to a single transaction for you. But think of all the transactions Dell had to go through to sell you that one computer. Dell had to purchase many parts from many computer component makers. It also had to purchase equipment and facilities to assemble the computers, hire and pay employees, pay money to create and maintain its Web site and advertise, and buy insurance and accounting and financial services to keep its operations running smoothly. Many transactions had to happen before you could purchase your computer.

Each of those transactions needed a salesperson. Each of those companies have a marketing department. Thus, there are a lot more college marketing graduates going into B2B companies than in B2C, which is reason enough to spend some time studying the subject. There are other differences, too.

Business products can be very complex. Some need to be custom built or retrofitted for buyers. The products include everything from high-dollar construction equipment to commercial real estate and buildings, military equipment, and billion-dollar cruise liners used in the tourism industry. A single customer can account for a huge amount of business. Some businesses, like those that supply the

U.S. auto industry around Detroit, have just a handful of customers—General Motors, Chrysler, and/or Ford. Consequently, you can imagine why these suppliers become very worried when the automakers fall on hard times.

Not only can business products be complex, but so can figuring out the buying dynamics of organizations. Many people within an organization can be part of the buying process and have a say in ultimately what gets purchased, how much of it, and from whom. Having different people involved makes business marketing much more complicated. And because of the quantities each business customer is capable of buying, the stakes are high. For some organizations, losing a big account can be financially devastating and winning one can be a financial bonanza.

Generally, the more high-dollar and complex the item being sold is, the longer it takes for the sale to be made. The sale of a new commercial jet to an airline company such as Southwest Airlines, Delta, or American Airlines can literally take years to be completed. Purchases such as these are risky for companies. The buyers are concerned about many factors, such as the safety, reliability, and efficiency of the planes. They also generally want the jets customized in some way. Consequently, a lot of time and effort is needed to close these deals.

Unlike many consumers, most business buyers demand that the products they buy meet strict standards. Take for example the Five Guys burger chain, based in Virginia. The company taste-tested eighteen different types of mayonnaise before settling on the one it uses. Would you be willing to taste eighteen different brands of mayonnaise before buying one? Probably not (Steinberg, 2009).

Another characteristic of B2B markets is the level of personal selling that goes on. Salespeople personally call on business customers to a far greater extent than they do consumers. Most of us have had door-to-door salespeople call on us occasionally. However, businesses often have multiple salespeople call on them

in person daily, and some customers even provide office space for key vendors' salespeople. Table 4.2 “Business-to-Consumer Markets versus Business-to-Business Markets: How They Compare” outlines the main differences between B2C and B2B markets.

Table  
6.5a Business-to-Consumer  
Markets versus  
Business-to-Business Markets:  
How They Compare

Consumer Market	Business Market
Many customers, geographically dispersed	Fewer customers, often geographically concentrated, with a small number accounting for most of the company's sales
Smaller total dollar amounts due to fewer transactions	Larger dollar amounts due to more transactions
Shorter decision cycles	Longer decision cycles
More reliance on mass marketing via advertising, Web sites, and retailing	More reliance on personal selling
Less-rigid product standards	More-rigid product standards

# The Demand for B2B Products

Even though they don't sell their products to consumers like you and me, B2B sellers carefully watch general economic conditions to anticipate consumer buying patterns. The firms do so because the demand for business products is based on derived demand. Derived demand is demand that springs from, or is derived from, a source other than the primary buyer of a product. When it comes to B2B sales, that source is consumers. If consumers aren't demanding the products produced by businesses, the firms that supply products to these businesses are in big trouble.

Fluctuating demand is another characteristic of B2B markets: a small change in demand by consumers can have a big effect throughout the chain of businesses that supply all the goods and services that produce it. Often, a bullwhip type of effect occurs. If you have ever held a whip, you know that a slight shake of the handle will result in a big snap of the whip at its tip. Essentially, consumers are the handle and businesses along the chain compose the whip—hence the need to keep tabs on end consumers. They are a powerful purchasing force.

For example, Cisco makes routers, which are specialized computers that enable computer networks to work. If Google uses five hundred routers and replaces 10 percent of them each year, that means Google usually buys fifty routers in a given year. What happens if consumer demand for the Internet falls by 10 percent? Then Google needs only 450 routers. Google's demand for Cisco's routers therefore becomes zero. Suppose the following year the demand for the Internet returns to normal. Google now needs to replace the fifty routers it didn't buy in the first year plus the fifty it needs to replace in the second year. So in year two, Cisco's sales go

from zero to a hundred, or twice normal. Thus Cisco experiences a bullwhip effect, whereas Google's sales vary only by 10 percent.

Because consumers are such a powerful force, some companies go so far as to try to influence their B2B sales by directly influencing consumers even though they don't sell their products to them. Intel is a classic case. Do you really care what sort of microprocessing chip gets built into your computer? Intel would like you to, which is why it has run a long series of commercials on TV to think about what chip is inside your computer.

B2B buyers also keep tabs on consumers to look for patterns that could create joint demand. Joint demand occurs when the demand for one product increases the demand for another. For example, when a new video console like the Xbox comes out, it creates demand for a whole new crop of video games.

Business buyers can be either nonprofit or for-profit businesses. To help you get a better idea of the different types of business customers in B2B markets, we've put them into four basic categories: producers, resellers, governments, and institutions.

## Producers

### Figure 6.5b



Your local tattoo parlor is a producer.

romana klee – apartment tattoo – CC BY-SA 2.0.

Producers are companies that purchase goods and services that they transform into other products. They include both manufacturers and service providers. Procter & Gamble, General Motors, McDonald's, Dell, and Delta Airlines are examples. So are the restaurants around your campus, your dentist, your doctor, and the local tattoo parlor. All these businesses have to buy certain products to produce the goods and services they create. General Motors needs steel and hundreds of thousands of other products to produce cars. McDonald's needs beef and potatoes. Delta Airlines needs fuel and planes. Your dentist needs drugs such as Novocain, oral tools, and X-ray machines. Your local tattoo parlor needs special inks and needles and a bright neon sign that flashes "open" in the middle of the night.

# Resellers

Resellers are companies that sell goods and services produced by other firms without materially changing them. They include wholesalers, brokers, and retailers. Walmart and Target are two big retailers you are familiar with. Large wholesalers, brokers, and retailers have a great deal of market power. If you can get them to buy your products, your sales can exponentially increase.

Every day, retailers flock to Walmart's corporate headquarters in Bentonville, Arkansas, to try to hawk their products. But would it surprise you that not everybody wants to do business with a powerhouse like Walmart? Jim Wier, one-time CEO of the company that produces Snapper-brand mowers and snowblowers, actually took a trip to Walmart's headquarters to stop doing business with the company. Why? Snapper products are high-end, heavy-duty products. Wier knew that Walmart had been selling his company's products for lower and lower prices and wanted deeper and deeper discounts from Snapper. He believed Snapper products were too expensive for Walmart's customers and always would be, unless the company started making cheaper-quality products or outsourced their manufacturing overseas, which is something he didn't want to do.

"The whole visit to Wal-Mart's headquarters is not a great experience," said Wier about his trip. "It's so crowded, you have to drive around, waiting for a parking space. You have to follow someone who is leaving, walking back to their car, and get their spot. Then you go inside this building, you register for your appointment, they give you a badge, and then you wait in the pews with the rest of the peddlers, the guy with the bras draped over his shoulder." Eventually, would-be suppliers were taken into small cubicles where they had thirty minutes to make their case (Fishman, 2007). "It's a little like going to see the principal, really," he said.

# Governments

Can you guess the biggest purchaser of goods and services in the world? It is the U.S. government. It purchases everything you can imagine, from paper and fax machines to tanks and weapons, buildings, toilets for NASA (the National Aeronautics and Space Administration), highway construction services, and medical and security services. State and local governments buy enormous amounts of products, too. They contract with companies that provide citizens with all kinds of services from transportation to garbage collection. (So do foreign governments, provinces, and localities, of course.) Business-to-government (B2G) markets, or when companies sell to local, state, and federal governments, represent a major selling opportunity, even for smaller sellers. In fact, many government entities specify that their agencies must award a certain amount of business to small businesses, minority- and women-owned businesses, and businesses owned by disabled veterans.

There is no one central department or place in which all these products are bought and sold. Companies that want to sell to the U.S. government should first register with the Central Contractor Registry at <http://www.CCR.gov>. They should then consult the General Services Administration (GSA) Web site (<http://www.gsa.gov>). The GSA helps more than two hundred federal agencies buy a wide variety of products purchased routinely. The products can include office supplies, information technology services, repair services, vehicles, and many other products purchased by agencies on a regular basis. Consequently, it is a good starting point. However, the GSA won't negotiate a contract for the NASA toilet or a fighter jet. It sticks to routine types of purchases.

Figure 6.5c

The screenshot shows the GSA (U.S. General Services Administration) website. At the top, there is a navigation bar with links: Home | Newsroom | Regions | Staff Directory | Careers | Forms | e-Tools | QuickLinks. Below this is a search bar with the text 'Search This Site' and a 'SEARCH' button. A secondary navigation bar contains links: WHAT GSA OFFERS, DOING BUSINESS WITH GSA, LEARN MORE, BLOG, and a 'Home' link. Below the navigation bar is a breadcrumb trail: Home > Purchasing Programs > Getting Started > How to Sell to the Government > How to Sell to the Government. The main content area is titled 'How to Sell to the Government'. It features a left sidebar with a 'Getting Started' section containing links: Overview, How to Buy Through GSA, How to Sell to the Government (highlighted), Business Breakthrough, For Businesses Without GSA Contracts, How GSA Buys: Schedules and Contracts, Indefinite Delivery, Indefinite Quantity (IDIQ), and Opportunities for Small Businesses. The main text area explains that GSA is the acquisition arm of the federal government, connecting the private sector with federal agencies. It lists services like professional services, equipment, supplies, telecommunications, and information technology. It also mentions that GSA provides workplaces to the government by constructing, managing, and preserving federal buildings and by leasing and managing commercial real estate through its Public Buildings Service (PBS). There are two links: 'Find out more about products and services offered through FAS' and 'Find out more about building-related opportunities'. Below this is a section titled 'Finding Business Opportunities with FedBizOpps'. It states that generally speaking, federal contractors and businesses interested in providing goods and services to the government must: 1. Find available opportunities with the government relevant to their business. 2. Make necessary preparations for bidding on a GSA contract. 3. Submit an offer. It then states that businesses should first visit Federal Business Opportunities, or FedBizOpps, and register there to be notified of newly posted opportunities in their industries. FedBizOpps provides a comprehensive database of all major government solicitations, contract awards, subcontracting opportunities, surplus property sales, and foreign business opportunities with the federal government. Below this is a section titled 'Understanding How GSA Buys'. It explains that when commercial businesses sell goods and services to the federal government through GSA, different kinds of contracts are used for different purposes. The primary contract vehicle is the GSA Schedules, or Multiple Award Schedules, program. There is a link: 'Learn more about the Schedules and contracts used by GSA'. It then states that where current contracts do not meet evolving needs, GSA will seek new procurement vehicles. As always, GSA will seek to promote competition in the marketplace, and strive to maintain outreach and support to small business. Companies who do not currently hold a GSA contract can still participate by seeking subcontracting opportunities with current contract holders. There is a link: 'Learn how to get started as a government contractor'. Below this is a section titled 'Assistance for Small Businesses'. It states that small businesses are the backbone of American commerce. The federal government is mandated to provide an array of programs and services especially for small businesses. In GSA, these are coordinated and overseen by the Office of Small Business Utilization (OSBU). OSBU's small business outreach activities include: Training and Counseling.

The General Services Administration (GSA) is a good starting point for companies that want to do business with the federal government. The U.S. Small Business Administration (SBA) also offers sellers a great deal of information on marketing to the government, including online courses that explain how to do it.

Source: <http://www.gsa.gov/portal/content/105344>.

The existence of the GSA doesn't mean the agencies it works with don't have any say over what is purchased for them. The agencies themselves have a big say, so B2B sellers need to contact them

and aggressively market their products to them. After all, agencies don't buy products, people do. Fortunately, every agency posts on the Internet a forecast of its budget, that is, what it is planning on spending money on in the coming months. The agencies even list the names, addresses, and e-mails of contact persons responsible for purchasing decisions. Many federal agencies are able to purchase as much as \$25,000 of products at a time by simply using a government credit card. This fact makes them a good target for small businesses.

It's not unusual for each agency or department to have its own procurement policies that must be followed. Would-be sellers are often asked to submit sealed bids that contain the details of what they are willing to provide the government and at what price. But contrary to popular belief, it's not always the lowest bid that's accepted. Would the United States want to send its soldiers to war in the cheapest planes and tanks, bearing the lowest-cost armor? Probably not. Like other buyers, government buyers look for the best value.

Yet selling to the government is not always easy. The GSA has its own red tape, as does each government division, and many purchases come with additional regulations or specifications written into the legislation that funded them. Because many purchases can be rather large, decision cycles can be very long and involve large buying centers. Some businesses avoid selling to the government because the perceived hassle is too great to warrant the effort. Other businesses, though, realize that learning the ins and outs of government purchases can become a sustainable competitive advantage.

## Figure 6.5d



Politics can come into play when it comes to large government purchases: Although the F-22 is the most sophisticated fighter jet in the world, it has never been used in battle. But when the Pentagon wanted to stop production on seven of the jets so it could spend the money on other conventional weapons being used in the wars the United States is currently fighting, it had a fight on its hands from the members of Congress. They didn't want the companies in their states that helped produce the plane to lose business.

Airwolfhound – F22 Raptor – RIAT 2010 – CC BY-SA 2.0.

### Institutions

Institutional markets include nonprofit organizations such as the American Red Cross, churches, hospitals, charitable organizations, private colleges, civic clubs, and so on. Like government and for-

profit organizations, they buy a huge quantity of products and services. Holding costs down is especially important to them. The lower their costs are, the more people they can provide their services to.

The businesses and products we have mentioned so far are broad generalizations to help you think about the various markets in which products can be sold. In addition, not all products a company buys are high dollar or complex. Businesses buy huge quantities of inexpensive products, too. McDonald's, for example, buys a lot of toilet paper, napkins, bags, employee uniforms, and so forth. Pretty much any product you and I use is probably used for one or more business purposes (cell phones and cell-phone services, various types of food products, office supplies, and so on). Some of us own real estate, and so do many businesses. But very few of us own many of the other products businesses sell to one another: cranes, raw materials such as steel, fiber-optic cables, and so forth.

That said, a smart B2B marketer will look at all the markets we have mentioned to see if they represent potential opportunities. The Red Cross will have no use for a fighter jet, of course. However, a company that manufactures toilet paper might be able to market it to both the Red Cross and the U.S. government. B2B opportunities abroad and online B2B markets can also be successfully pursued. We will discuss these topics later in the chapter.

## 6.6 The B2B Buying Center

### Who Makes the Purchasing Decisions in Business Markets?

Figuring out who exactly in B2B markets is responsible for what gets purchased and when often requires some detective work for marketing professionals and the salespeople they work with. Think about the college textbooks you buy. Who decides which ones ultimately are purchased by the students at your school? Do publishers send you e-mails about certain books they want you to buy? Do you see ads for different types of chemistry or marketing books in your school newspaper or on TV? Generally, you do not. The reason is that even though you buy the books, the publishers know that professors ultimately decide which textbooks are going to be used in the classroom. Consequently, B2B sellers largely concentrate their efforts on those people.

## Figure 6.6a



Who ya gonna call? Click [here](#) to play an online game that will help you understand why finding the right decision makers in a company is so tricky. Are you up to the challenge?

Doug – Old phone – CC BY-NC 2.0.

That's not to say that to some extent the publishers don't target you. They may offer you a good deal by packaging a study guide with your textbook or some sort of learning supplement online you can purchase. They might also offer your bookstore manager a discount for buying a certain number of textbooks. However, a publishing company that focused on selling its textbooks directly to you or to a bookstore manager would go out of business. They know the true revenue generators are professors.

The question is, which professors? Some professors choose their own books. Adjunct professors often don't have a choice—their

books are chosen by a course coordinator or the dean or chair of the department. Still other decisions are made by groups of professors, some of whom have more say over the final decision than others. Are you getting the picture? Figuring out where to start in B2B sales can be a little bit like a scavenger hunt.

The professors who form a committee at your school to choose textbooks are acting like a **buying center**. Buying centers are groups of people within organizations who make purchasing decisions. Large organizations often have permanent departments that consist of the people who, in a sense, shop for a living. They are professional buyers, in other words. Their titles vary. In some companies, they are simply referred to as *buyers*. In other companies, they are referred to as *purchasing agents*, *purchasing managers*, or *procurement officers*. Retailers often refer to their buyers as *merchandisers*. Most of the people who do these jobs have bachelor's of science degrees. Some undergo additional industry training to obtain an advanced purchasing certification designation<sup>1</sup>.

Purchasing agents can have a large impact on the expenses, sales, and profits of a company. Pier 1's purchasing agents literally comb the entire world looking for products the company's customers want most. What happens if the products the purchasing agents pick don't sell? Pier 1's sales fall, and people get fired. This doesn't happen in B2C markets. If you pick out the wrong comforter for your bed, you don't get fired. Your bedroom just looks crummy.

Consequently, purchasing agents are shrewd. They have to be because their jobs depend on it. Their jobs depend on their choosing the best products at the best prices from the best vendors. Professional buyers are also well informed and less likely to buy a product on a whim than consumers. The following sidebar outlines the tasks professional buyers generally perform.

# The Duties of Purchasing Agents

- Considering the availability of products, the reliability of the products' vendors, and the technical support they can provide
- Studying a company's sales records and inventory levels
- Identifying suppliers and obtaining bids from them
- Negotiating prices, delivery dates, and payment terms for goods and services
- Keeping abreast of changes in the supply and demand for goods and services their firms need
- Staying informed of the latest trends so as to anticipate consumer buying patterns
- Determining the media (TV, the Internet, newspapers, and so forth) in which advertisements will be placed
- Tracking advertisements in newspapers and other media to check competitors' sales activities

Increasingly, purchasing managers have become responsible for buying not only products but also functions their firms want to

outsource. The functions aren't limited to manufacturing. They also include product innovation and design services, customer service and order fulfillment services, and information technology and networking services to name a few. Purchasing agents responsible for finding offshore providers of goods and services often take trips abroad to inspect the facilities of the providers and get a better sense of their capabilities.

## The Players

Purchasing agents don't make all the buying decisions in their companies, though. As we explained, other people in the organization often have a say, as well they should. Purchasing agents frequently need their feedback and help to buy the best products and choose the best vendors. The people who provide their firms' buyers with input generally fall into one or more of the following groups. Individuals can fulfill multiple roles. Multiple individuals can be classified with the same role.

# Initiators

Initiators are the people within the organization who first see the need for the product. But they don't stop there; whether they have the ability to make the final decision of what to buy or not, they get the ball rolling. Sometimes they initiate the purchase by simply notifying purchasing agents of what is needed; other times they have to lobby executives to consider making a change.

## Users

Users are the people and groups within the organization that actually use the product. Frequently, one or more users serve as an initiator in an effort to improve what they produce or how they produce it, and they certainly have the responsibility for implementing what is purchased. Users often have certain specifications in mind for products and how they want them to perform. An example of a user might be a professor at your school who wants to adopt an electronic book and integrate it into his or her online course.

## Influencers

Influencers are people who may or may not use the product but have experience or expertise that can help improve the buying decision. For example, an engineer may prefer a certain vendor's product platform and try to persuade others that it is the best choice.

## Gatekeepers

If you want to sell a product to a large company like Walmart, you can't just walk in the door of its corporate headquarters and

demand to see a purchasing agent. You will first have to get past of a number of gatekeepers, or people who will decide if and when you get access to members of the buying center. These are people such as buying assistants, personal assistants, and other individuals who have some say about which sellers are able to get a foot in the door.

## Figure 6.6b



Warning: Do not be rude to or otherwise anger the faculty secretary. This is good advice for salespeople and students as well as faculty members.

Patrice\_Audet – Secretary Office Sales Telephony – CC0 public domain.

Gatekeepers often need to be courted as hard as prospective buyers do. They generally have a lot of information about what's going on behind the scenes and a certain amount of informal power. If they like you, you're in a good position as a seller. If they don't, your job is going to be *much* harder. In the case of textbook sales, the gatekeepers are often faculty secretaries. They know in advance which instructors will be teaching which courses and the types of books they will need. It is not uncommon for faculty secretaries to screen the calls of textbook sales representatives.

## Deciders

The decider is the person who makes the final purchasing decision. The decider might or might not be the purchasing manager. Purchasing managers are generally solely responsible for deciding upon routine purchases and small purchases. However, the decision to purchase a large, expensive product that will have a major impact on a company is likely to be made by or with the help of other people in the organization, perhaps even the CEO. The decision may be made by a single decider, or there may be a few who reach consensus. Further, deciders take into account the input of all of the other participants: the users, influencers, and so forth. Sellers, of course, pay special attention to what deciders want. "Who makes the buying decision?" is a key question B2B sales and marketing personnel are trained to quickly ask potential customers. The main decisions they make are 1) which product and 2) from which vendor.

## Buyers

Buyers are the people who negotiate the details. They will work out delivery, invoicing, acceptable substitutes, process for handling issues, etc. They are the ones who work closely with the vendors.

## Purchasing Agent

A final word about purchasing agents: different organization will define this term differently. In some organizations, the purchasing agent is the buyer role, in some it is the decider role, and in some it is a combination of those two roles.

## You Try It!



*An interactive H5P element has been excluded from this version of the text. You can view it online here:*

<https://iu.pressbooks.pub/mktgwip/?p=156#h5p-12>

## 6.7 B2B Decision Making

### The Decision Making Process

Next, let's look at the stages in the B2B buying process. They are similar to the stages in the consumer's buying process.

**1. A need is recognized.** Someone recognizes that the organization has a need that can be solved by purchasing a good or service. Users often drive this stage, although others can serve the role of initiator. In the case of the electronic textbook, it could be, for example, the professor assigned to teach the online course. However, it could be the dean or chairman of the department in which the course is taught.

**2. The need is described and quantified.** Next, the buying center, or group of people brought together to help make the buying decision, work to put some parameters around what needs to be purchased. In other words, they describe what they believe is needed, the features it should have, how much of it is needed, where, and so on. For more technical or complex products the buyer will define the product's technical specifications. Will an off-the-shelf product do, or must it be customized?

Users and influencers come into play here. In the case of our electronic book, the professor who teaches the online course, their teaching assistants, and the college's information technology staff would try to describe the type of book best suited for the course. Should the book be posted on the Web as this book is? Should it be downloadable? Maybe it should be compatible with Amazon's Kindle. Figure 6.7a "An Example of Product Specifications Developed for a B2B Purchase" shows the specifications developed for a janitorial-services purchase by the state of Kentucky.

# Figure 6.7a An Example of Product Specifications Developed for a B2B Purchase

**Who:** Division of Building Services

**What:** Janitorial Services for State Office Building at High and Mero Streets, Frankfort, Kentucky

**Background:**

Past experience with various contractors indicates that not all vendors are prepared to handle buildings the size of the State Office Building. Building Services indicated that staff and materials supported by a quality review program have been the common elements of the more successful vendors.

- Gross area: 384,586 sq. ft
- Total area to be cleaned: 322,585 sq. ft
- Rest room areas: 7,801 sq. ft
- Carpeted areas: 126,304 sq. ft
- Basement areas: 22,734 sq. ft
- Computer areas: 1,104 sq. ft
- Stairways: 4 sets
- Passenger elevators: 6
- Freight elevators: 1

**Specifications:**

- Daily cleaning for waste baskets, ashtrays, trash can liners, glass partitions, floors (sweep, mop, and buff), carpets (vacuum), and restrooms
- All cleaning conducted after hours
- Sign-in sheets and identification on badges for contractor's employees
- Current insurance

DIVISION OF PURCHASES

Source: <http://www.state.ky.us/agencies/adm/leadership/best/sld047.htm>.

**3. Potential suppliers are searched for / RFPs posted.** At this stage, the people involved in the buying process seek out information about the products they are looking for and the vendors that can supply them. Most buyers look online first to find vendors and products, then attend industry trade shows and conventions and telephone or e-mail the suppliers with whom they have relationships. The buyers might also consult trade magazines, the blogs of industry experts, and perhaps attend Webinars conducted

by vendors or visit their facilities. Purchasing agents often play a key role when it comes to deciding which vendors are the most qualified. Are they reliable and financially stable? Will they be around in the future? Do they need to be located near the organization or can they be in another region of the country or in a foreign country? The vendors that don't make the cut are quickly eliminated from the running.

Each vendor that makes the cut is sent a request for proposal (RFP), which is an invitation to submit a bid to supply the good or service. An RFP outlines what the vendor is able to offer in terms of its product—its quality, price, financing, delivery, after-sales service, whether it can be customized or returned, and even the product's disposal, in some cases. Good sales and marketing professionals do more than just provide basic information to potential buyers in RFPs. They focus on the buyer's problems and how to adapt their offers to solve those problems.

Oftentimes the vendors formally present their products to the people involved in the buying decision. If the good is a physical product, the vendors generally provide the purchaser with samples, which are then inspected and sometimes tested. They might also ask satisfied customers to make testimonials or initiate a discussion with the buyer to help the buyer get comfortable with the product and offer advice on how best to go about using it.

**4. The proposals are evaluated and supplier(s) selected.** During this stage, the RFPs are reviewed and the vendor or vendors selected. RFPs are best evaluated if the members agree on the criteria being evaluated and the importance of each. Different organizations will weigh different parts of a proposal differently, depending on their goals and the products they purchase. The price might be very important to some sellers, such as discount and dollar stores. Other organizations might be more focused on top-of-the-line goods and the service a seller provides. Recall that the maker of Snapper mowers and snowblowers was more focused on purchasing quality materials to produce top-of-the-line equipment that could be sold at a premium. Still other factors include the availability of

products and the reliability with which vendors can supply them. Reliability of supply is extremely important because delays in the supply chain can shut down a company's production of goods and services and cost the firm its customers and reputation.

For high-priced, complex products, after-sales service is likely to be important. A fast-food restaurant might not care too much about the after-sales service for the paper napkins it buys—just that they are inexpensive and readily available. However, if the restaurant purchases a new drive-thru ordering system, it wants to be assured that the seller will be on hand to repair the system if it breaks down and perhaps train its personnel to use the system.

A scorecard approach can help a company rate the RFPs. Figure 6.7b “A Scorecard Used to Evaluate RFPs” is a simple example of a scorecard completed by one member of a buying team. The scorecards completed by all the members of the buying team can then be tabulated to help determine the vendor with the highest rating.

## Figure 6.7b A Scorecard Used to Evaluate RFPs

Reviewer: Jose Martinez		Vendor A		Vendor B		Vendor C	
Criteria	Weight	Score (scale of 1–3)	Points (score × weight)	Score (scale of 1–3)	Points (score × weight)	Score (scale of 1–3)	Points (score × weight)
Product Performance	3	1	3	3	9	2	6
Product Durability	3	3	9	2	6	3	9
Price	3	3	9	2	6	2	6
On-Time Delivery	3	3	9	2	6	2	6
Customer Service	3	2	6	2	6	2	6
Returns Policy	2	2	6	2	6	2	6
<b>TOTAL SCORE</b>			42		39		39

*Selecting Single versus Multiple Suppliers.* Sometimes organizations select a single supplier to provide the good or service. This can help streamline a company's paperwork and other buying processes. With a single supplier, instead of negotiating two contracts and submitting two purchase orders to buy a particular offering, the company only has to do one of each. Plus, the more the company buys from one vendor, the bigger the volume discount it gets. Single sourcing can be risky, though, because it leaves a firm at the mercy of a sole supplier. What if the supplier doesn't deliver the goods, goes out of business, or jacks up its prices? Many firms prefer to do business with more than one supplier to avoid problems such as these. Doing business with multiple suppliers keeps them on their toes. If they know their customers can easily switch their business over to another supplier, they are likely to compete harder to keep the business.

**5. An order routine is established.** This is the stage in which the actual order is put together. The order includes the agreed-upon price, quantities, expected time of delivery, return policies, warranties, and any other terms of negotiation (Brauner, 2008). The order can be made on paper, online, or sent electronically from the buyer's computer system to the seller's. It can also be a one-time order or consist of multiple orders that are made periodically as a company needs a good or service. Some buyers order products continuously by having their vendors electronically monitor their

inventory for them and ship replacement items as the buyer needs them. (We'll talk more about inventory management in Chapter 9 "Using Supply Chains to Create Value for Customers".)

**6. Vendor analysis, or postpurchase evaluation, is conducted and the feedback provided to the vendor.** Just as consumers go through an evaluation period after they purchase goods and services, so do businesses. The buying unit might survey users of the product to see how satisfied they were with it. Cessna Aircraft Company, a small U.S. airplane maker, routinely surveys the users of the products it buys so they can voice their opinions on a supplier's performance<sup>1</sup>.

Some buyers establish on-time performance, quality, customer satisfaction, and other measures for their vendors to meet, and provide those vendors with the information regularly, such as trend reports that show if their performance is improving, remaining the same, or worsening. (The process is similar to a performance evaluation you might receive as an employee.) For example, Food Lion shares a wide variety of daily retail data and performance calculations with its suppliers in exchange for their commitment to closely collaborate with the grocery-store chain.

Keep in mind that a supplier with a poor performance record might not be entirely to blame. The purchasing company might play a role, too. For example, if the U.S. Postal Service contracts with FedEx to help deliver its holiday packages on time, but a large number of the packages are delivered late, FedEx may or may not be to blame. Perhaps a large number of loads the U.S. Postal Service delivered to FedEx were late, weather played a role, or shipping volumes were unusually high. Companies need to collaborate with their suppliers to look for ways to improve their joint performance. Some companies hold annual symposiums with their suppliers to facilitate cooperation among them and to honor their best suppliers (Copacino, 2009).

# Types of B2B Buying Situations

To some extent the stages an organization goes through and the number of people involved depend on the buying situation. Is this the first time the firm has purchased the product or the fiftieth? If it's the fiftieth time, the buyer is likely to skip the search and other phases and simply make a purchase. A **straight rebuy** is a situation in which a purchaser buys the same product in the same quantities from the same vendor. Nothing changes, in other words. Postpurchase evaluations are often skipped, unless the buyer notices an unexpected change in the offering such as a deterioration of its quality or delivery time.

Sellers like straight rebuys because the buyer doesn't consider any alternative products or search for new suppliers. The result is a steady, reliable stream of revenue for the seller. Consequently, the seller doesn't have to spend a lot of time on the account and can concentrate on capturing other business opportunities. Nonetheless, the seller cannot ignore the account. The seller still has to provide the buyer with top-notch, reliable service or the straight-rebuy situation could be jeopardized.

If an account is especially large and important, the seller might go so far as to station personnel at the customer's place of business to be sure the customer is happy and the straight-rebuy situation continues. IBM and the management consulting firm Accenture station employees all around the world at their customers' offices and facilities.

By contrast, a **new-buy** selling situation occurs when a firm purchases a product for the first time. Generally speaking, all the buying stages we described in the last section occur. New buys are the most time consuming for both the purchasing firm and the

firms selling to them. If the product is complex, many vendors and products will be considered, and many RFPs will be solicited.

New-to-an-organization buying situations rarely occur. What is more likely is that a purchase is new to the people involved. For example, a school district owns buildings. But when a new high school needs to be built, there may not be anyone in management who has experience building a new school. That purchase situation is a new buy for those involved.

A **modified rebuy** occurs when a company wants to buy the same type of product it has in the past but make some modifications to it. Maybe the buyer wants different quantities, packaging, or delivery, or the product customized slightly differently. For example, your instructor might have initially adopted this textbook “as is” from its publisher, but then decided to customize it later with additional questions, problems, or content that he or she created or that was available from the original publisher.

A modified rebuy doesn't necessarily have to be made with the same seller, however. Your instructor may have taught this course before, using a different publisher's book. High textbook costs, lack of customization, and other factors may have led to dissatisfaction. In this case, she might visit with some other textbook suppliers and see what they have to offer. Some buyers routinely solicit bids from other sellers when they want to modify their purchases in order to get sellers to compete for their business. Likewise, savvy sellers look for ways to turn straight rebuys into modified buys so they can get a shot at the business. They do so by regularly visiting with customers and seeing if they have unmet needs or problems a modified product might solve.

## You Do It!



*An interactive H5P element has been excluded from this version of the text. You can view it online here:*

<https://iu.pressbooks.pub/mktgwip/?p=158#h5p-13>

Reference: <https://opentextbc.ca/businessopenstaxreferences:>



# CHAPTER 7: PRODUCT MANAGEMENT

## Learning Objectives

1. Students will be able to view a product from a holistic view: understanding the benefit as well as the different attributes of a product and how those attributes contribute to the marketing strategy.
2. Students will be able to analyze a market and determine the current stage of the product life cycle (PLC) and the resulting implications for strategy
3. Students will be able to define and demonstrate the components of a branding strategy
4. Students will be able to describe the new process development process.

## Introduction

This chapter begins our discussion of the functional areas of marketing. Why do we begin our discussion with product rather than with promotion, distribution, or pricing? The answer is quite obvious. None of those other functions serve any useful purpose without a company product that provides consumer satisfaction. Without a product, there is nothing to promote, nothing to distribute, nothing to price. This does not suggest that product is more important, rather, it is the impetus for the other marketing

functions. Logically, we should start at the beginning, and the beginning of a market place is a set of correct decisions about the product offerings of the firm.

# 7.1 Product Classifications

## Defining the product

In essence, the term “product” refers to anything offered by a firm to provide customer satisfaction, be it tangible or intangible. It can be a single product, a combination of products, a product-service combination, or several related products and services. It normally has at least a generic name (e.g. banana) and usually a brand name (e.g. Chiquita). Although a product is normally defined from the perspective of the manufacturer, it is also important to note two other points-of-view, those of the consumer and of other relevant publics. For a manufacturer like Kraft Foods, their macaroni and cheese dinner reflects a food product containing certain ingredients packaged, distributed, priced, and promoted in a unique manner, and requiring a certain return on their investment. For the consumer, the product is a somewhat nutritious food item that it is quick and easy to prepare and is readily consumed by the family, especially the kids. For a particular public, such as the US Food and Drug Administration, this product reflects a set of ingredients that must meet particular minimum standards in terms of food quality, storage, and distribution.

Making this distinction is important in that all three perspectives must be understood and satisfied if any product will survive and succeed. Furthermore, this sensitivity to the needs of all three is the marketing concept in action. For example, a company might design a weight-reduction pill that not only is extremely profitable but also has a wide acceptance by the consumer. Unfortunately, it cannot meet the medical standards established by the US

Federal government. Likewise, Bird's Eye Food might improve the overall quality of their frozen vegetables and yet not improve the consumers' tendency to buy that particular brand simply because

these improvements were not perceived as either important or noticeable by the consumer. Therefore, an appraisal of a company's product is always contingent upon the needs and wants of the marketer, the consumer, and the relevant publics. We define product as follows: anything, either tangible or intangible, offered by the firm; as a solution to the needs and wants of the consumer; is profitable or potentially profitable; and meets the requirements of the various publics governing or influencing society.

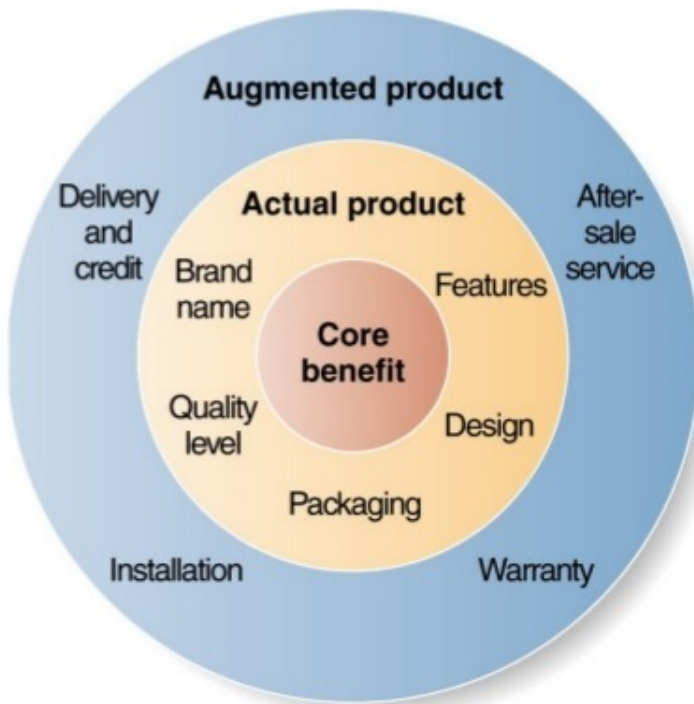
There are four levels of a product: **core**, **actual**, **augmented**, and **promised** (see Exhibit 7.1a). We begin with the notion of the **core product**, which identifies what the consumers feel they are getting when they purchase the product. The core benefits derived when an overweight 45-year-old male purchases a USD 250 ten-speed bicycle is not transportation; it is the hope for better health and improved conditioning. In a similar vein, that same individual may install a USD 16,000 swimming pool in his backyard, not in order to obtain exercise, but to reflect the status he so desperately requires. Both are legitimate product cores. Because the core product is so individualized, and oftentimes vague, a full-time task of the marketer is to accurately identify the core product for a particular target market. Think of the core product as being the benefit sought.

Once the core product has been indicated, the **actual product** becomes important. This tangibility is reflected primarily in its quality level, features, brand name, styling, and packaging. Literally every product contains these components to a greater or lesser degree. Unless the product is one-of-a-kind (e.g. oil painting), the consumer will use at least some of these tangible characteristics to evaluate alternatives and make choices. In addition, the importance of each will vary across products, situations, and individuals. For example, for Mr. Smith at age 25, the selection of a particular brand of new automobile (core product=transportation) was based on tangible elements such as styling and brand name (choice=Corvette); at age 45, the core product remains the same, while the tangible components such as quality level and features

become important (choice=Mercedes). While these primarily relate to physical goods, the branding, and packaging elements relate to services as well.

At the next level lies the **augmented product**. Every product is backed up by a host of supporting services. Often, the buyer expects these services and would reject the core-tangible product if they were not available. Examples would be restrooms, escalators, and elevators in the case of a department store, and warranties and return policies in the case of a lawn mower. Dow Chemical has earned a reputation as a company that will bend over backwards in order to service an account. It means that a Dow sales representative will visit a troubled farmer after-hours in order to solve a serious problem. This extra service is an integral part of the augmented product and a key to their success. In a world with many strong competitors and few unique products, the role of the augmented product is clearly increasing.

The outside of the three rings of the product – not illustrated in the exhibit – is referred to as the **promised product**. Every product has an implied promise. An implied promise is a characteristic that is attached to the product over time. The car industry rates brands by their trade-in value. There is no definite promise that a Mercedes-Benz holds its value better than a BMW. There will always be exceptions. How many parents have installed a swimming pool based on the implied promise that their two teenagers will stay home more or that they will entertain friends more often? Having discussed the components of a product, it is now relevant to examine ways of classifying products in order to facilitate the design of appropriate product strategies.



*Exhibit 7.1a marketing-insider.eu*

## Classification of products

It should be apparent that the process of developing successful marketing programs for individual products is extremely difficult. In response to this difficulty, a variety of classification systems have evolved that, hopefully, suggest appropriate strategies. The two

most common classifications are: (a) consumer goods versus industrial goods, and (b) goods products (i.e. durables and nondurables) versus service products.

The traditional classification of products is to dichotomize all products as being either consumer goods or industrial goods. When we purchase products for our own consumption or that of our family with no intention of selling these products to others, we are referring to consumer goods. Conversely, industrial goods are purchased by an individual or organization in order to modify them or simply distribute them to the ultimate consumer in order to make a profit or meet some other objective.

## Classification of consumer goods

Products and services can be categorized in a number of ways. We will use these categories throughout the book because they are the most commonly referred to categories by marketers and because there are marketing implications for each. Consumer offerings fall into four general categories:

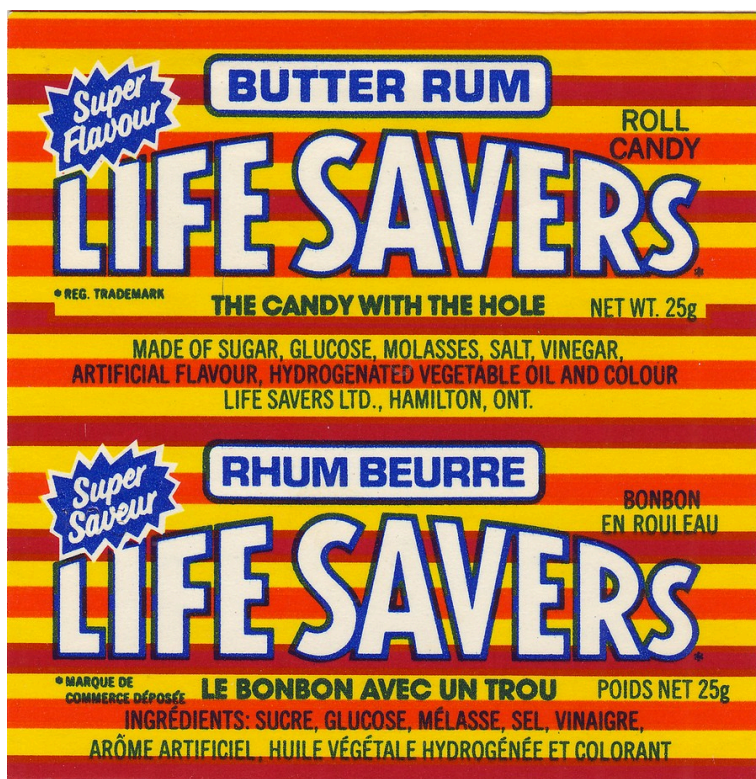
1. Convenience offerings
2. Shopping offerings
3. Specialty offerings
4. Unsought offerings

In this section, we will discuss each of these categories. Keep in mind that the categories are not a function of the characteristic of the offerings themselves. Rather, they are a function of how consumers want to purchase them, which can vary from consumer to consumer. What one consumer considers a shopping good might be a convenience good to another consumer.

# Convenience Offerings

Convenience offerings are products and services consumers generally don't want to put much effort into shopping for because they see little difference between competing brands. For many consumers, bread is a convenience offering. A consumer might choose the store in which to buy the bread but be willing to buy whatever brand of bread the store has available. Marketing convenience items is often limited to simply trying to get the product in as many places as possible where a purchase could occur.

Figure 7.1b



The Life Savers Candy Company was formed in 1913. Its primary sales strategy was to create an impulse to buy Life Savers by encouraging retailers and restaurants to place them next to their cash registers and include a nickel—the purchase price of a roll of Life Savers—in the customer’s change.

Jason – Life Savers – CC BY-NC 2.0.

Closely related to convenience offerings are impulse offerings, or items purchased without any planning. The classic example is Life Savers, originally manufactured by the Life Savers Candy Company, beginning in 1913. The company encouraged retailers and restaurants to display the candy next to their cash registers and to always give customers a nickel back as part of their change so as to encourage them to buy one additional item—a roll of Life Savers, of course!

## Shopping Offerings

A shopping offering is one for which the consumer will make an effort to compare and select a brand. Consumers believe there are differences between similar shopping offerings and want to find the right one or the best price. Buyers might visit multiple retail locations or spend a considerable amount of time visiting Web sites and reading reviews about the product, such as the reviews found in *Consumer Reports*.

Consumers often care about brand names when they're deciding on shopping goods. If a store is out of a particular brand, then another brand might not do. For example, if you prefer Crest Whitening Expressions toothpaste and the store you're shopping at is out of it, you might put off buying the toothpaste until your next trip to the store. Or you might go to a different store or buy a small tube of some other toothpaste until you can get what you want. Note that even something as simple as toothpaste can become a shopping good for someone very interested in her dental health—perhaps after she's read online product reviews or consulted with her dentist. That's why companies like Procter & Gamble, the maker of Crest, work hard to influence not only consumers but also people like dentists who influence the sale of their products.

# Figure 7.1C



If your favorite toothpaste is Crest's Whitening Fresh Mint, you might change stores if you don't find it on the shelves of your regular store.

Ben Lucier – Crest Toothpaste – CC BY 2.0.

## Specialty Offerings

Specialty offerings are highly differentiated offerings, and the brands under which they are marketed are very different across companies, too. For example, an Orange County Chopper or Iron Horse motorcycle is likely to be far different feature-wise than a Kawasaki or Suzuki motorcycle. Typically, specialty items are available only through limited channels. For example, exotic

perfumes available only in exclusive outlets are considered specialty offerings. Specialty offerings are purchased less frequently than convenience offerings. Therefore, the profit margin on them tends to be greater.

Note that while marketers try to distinguish between specialty offerings, shopping offerings, and convenience offerings, it is the consumer who ultimately makes the decision. Therefore, what might be a specialty offering to one consumer may be a convenience offering to another. For example, one consumer may never go to Sport Clips or Ultra-Cuts because hair styling is seen as a specialty offering. A consumer at Sport Clips might consider it a shopping offering, while a consumer for Ultra-Cuts may view it as a convenience offering. The choice is the consumer's.

Figure 7.1d



Specialty offerings, such as this custom-made motorcycle, are highly differentiated. People will go to greater lengths to shop for these items and are willing to pay more for them.

Wikimedia Commons – CC BY 2.0.

Marketing specialty goods requires building brand name recognition in the minds of consumers and educating them about your product's key differences. This is critical. For fashion goods, the only point of difference may be the logo on the product (for example, an Izod versus a Polo label). Even so, marketers spend a great deal of money and effort to try to get consumers to perceive these products differently than their competitors<sup>1</sup>.

# Unsought Offerings

Unsought offerings are those that buyers do not generally want to have to shop for until they need them. Towing services and funeral services are generally considered unsought offerings. Marketing unsought items is difficult. Some organizations try to presell the offering, such as preneed sales in the funeral industry or towing insurance in the auto industry. Other companies, such as insurance companies, try to create a strong awareness among consumers so that when the need arises for these products, consumers think of their organizations first.

## Classification of industrial goods

Consumer goods are characterized as products that are aimed at and purchased by the ultimate consumer. Although consumer products are more familiar to most readers, industrial goods represent a very important product category, and in the case of some manufacturers, they are the only product sold. The methods of industrial marketing are somewhat more specialized, but in general the concepts presented in this text are valid for the industrial marketer as well as for the consumer goods marketer.

Industrial products can be classified differently depending on the source. We are dividing the products into two categories. The first category are types of product used in production of products:

**Raw materials:** products in their crude form that will be used in other products

**Installations:** major capital investment items of facilities and equipment

**Component parts:** manufactured products that are a part of another good

The second category are products used in the running of the business:

**Accessory equipment:** the equipment found in an office setting such as furniture or communication devices

**Business services:** services performed by a third party such as security, accounting, etc.

**MRO supplies** (maintenance, repair, and operating): products that are used in daily operations

## The Product Mix

Most organization have thousands of individual products (**product items**) they offer to potential buyers. All the offering of an organization is known as the **product mix**. Trying to manage thousands of products and strategies is unrealistic and would be a waste of resources. To help manage all the items in the mix, firms organize the items into lines and categories. **Product lines** are groupings of similar product items. The grouping is up to the organization but might be based on functionality, target market, or geography. **Product categories** are sub-groupings within a product line.

Finally, product mix width (or breadth) describes the number of lines in a mix. If a product mix has many lines, then it is wide. If it has limited lines, then it is narrow. The product mix depth describes the number of items in a line. If there are many items, it is deep. If it has limited items, it is shallow.

# Figure 7.1e Product Mix

Product Line 1	Product Line 2	Product Line 3		
Item 1	Item 1	Category 1	Category 2	Category 3
Item 2	Item 2	Item 1	Item 1	Item 1
Item 3		Item 2	Item 2	Item 2
Item 4		Item 3		Item 3
				Item 4

PRODUCT MIX DEPTH

PRODUCT MIX WIDTH / BREADTH

## YOU TRY IT!



An interactive H5P element has been excluded from this version of the text. You can view it online here:

<https://iu.pressbooks.pub/mktgwip/?p=69#h5p-14>

## 7.2 Product Life Cycle (PLC)

### Why the Product Life Cycle (PLC)?

Once a product is created and introduced in the marketplace, the offering must be managed effectively for the customer to receive value from it. Only if this is done will the product's producer achieve its profit objectives and be able to sustain the offering in the marketplace. The process involves making many complex decisions. Companies also need expertise to successfully launch products in foreign markets. Given many possible constraints in international markets, companies might initially introduce a product in limited areas abroad. Other organizations, such as Coca-Cola, decide to compete in markets worldwide<sup>1</sup>.

The product life cycle (PLC) includes the stages the product goes through after development, from introduction to the end of the product. Just as children go through different phases in life (toddler, elementary school, adolescent, young adult, and so on), products and services also age and go through different stages. The PLC is a beneficial tool that helps marketers manage the stages of a product's acceptance and success in the marketplace, beginning with the product's introduction, its growth in market share, maturity, and possible decline in market share. Other tools such as the Boston Consulting Group matrix and the General Electric approach may also be used to manage and make decisions about what to do with products. For example, when a market is no longer growing but the product is doing well (cash cow in the BCG approach), the company may decide to use the money from the cash cow to invest in other products they have rather than continuing to invest in the product in a no-growth market.

The product life cycle can vary for different products and

different product categories. Figure 7.2a “Life Cycle” illustrates an example of the product life cycle, showing how a product can move through four stages. However, not all products go through all stages and the length of a stage varies. For example, some products never experience market share growth and are withdrawn from the market.

Typically the Product Life Cycle pertains to the product, or category, within the industry. It is not company or brand specific. However, there are times that it is applied to individual products within a company, as described below. Most situations though, cause for an analysis of where the industry is and what is likely to occur in the near future.

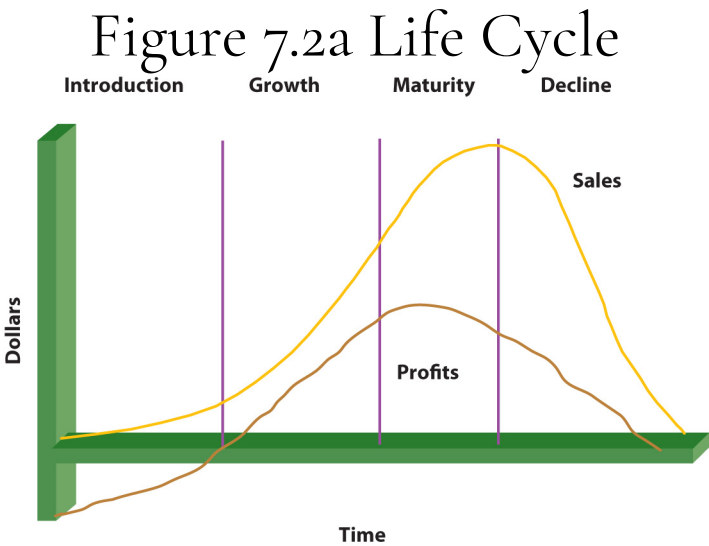


Figure 7.2b



Diet Coke changed its can to keep from getting outdated.

Wikimedia Commons – public domain.

Other products stay in one stage longer than others. For example,

in 1992, PepsiCo introduced a product called Clear Pepsi, which went from introduction to decline very rapidly. By contrast, Diet Coke entered the growth market soon after its introduction in the early 1980s and then entered (and remains in) the mature stage of the product life cycle. New computer products and software and video games often have limited life cycles, whereas product categories such as diamonds and durable goods (kitchen appliances) generally have longer life cycles. How a product is promoted, priced, distributed, or modified can also vary throughout its life cycle. Let's now look at the various product life cycle stages and what characterizes each.

## Stages of the Product Life Cycle (PLC)

### The Introduction Stage

The first stage in a product's life cycle is the introduction stage. The introduction stage is the same as commercialization/product launch, or the last stage of the new product development process.

Marketing costs are typically higher in this stage than in other stages. As an analogy, think about the amount of fuel a plane needs for takeoff relative to the amount it needs while in the air. Just as an airplane needs more fuel for takeoff, a new product or service needs more funds for introduction into the marketplace. Communication (promotion) is needed to generate awareness of the product and persuade consumers to try it, and placement alternatives and supply chains are needed to deliver the product to the customers. Profits are often low in the introductory stage due to the research and development costs and the marketing costs necessary to launch the product.

The length of the introductory stage varies for different products. However, by law in the United States, a company is only allowed to use the label “new” on a product’s package for six months. An organization’s objectives during the introductory stage often involve educating potential customers about its value and benefits, creating awareness, and getting potential customers to try the product or service. Getting products and services, particularly multinational brands, accepted in foreign markets can take even longer. Consequently, companies introducing products and services abroad generally must have the financial resources to make a long-term (longer than one year) commitment to their success.

The specific promotional strategies a company uses to launch a product vary depending on the type of product and the number of competitors it faces in the market. Firms that manufacture products such as cereals, snacks, toothpastes, soap, and shampoos often use mass marketing techniques such as television commercials and Internet campaigns and promotional programs such as coupons and sampling to reach consumers. To reach wholesalers and retailers such as Walmart, Target, and grocery stores, firms utilize personal selling. Many firms promote to customers, retailers, and wholesalers. Sometimes other, more targeted advertising strategies are employed, such as billboards and transit signs (signs on buses, taxis, subways, and so on). For more technical or expensive products such as computers or plasma televisions, many firms utilize

professional selling, informational promotions, and in-store demonstrations so consumers can see how the products work.

Figure 7.2c



Many new convenient snack packages, such as jelly snacks and packages of different sizes, are available in China and the United States.

Paul Townsend – Old Fashioned Candy – CC BY-NC 2.0.

During introduction, an organization must have enough distribution outlets (places where the product is sold or the service is available) to get the product or service to the customers. The product quantities must also be available to meet demand. For example, IBM's ThinkPad was a big hit when it was first introduced, but the demand for it was so great that IBM wasn't able to produce enough of the product. Cooperation from a company's supply chain members—its manufacturers, wholesalers, and so forth—helps ensure that supply meets demand and that value is added throughout the process.

When you were growing up, you may remember eating Rice Krispies Treats cereal, a very popular product. The product was so popular that Kellogg's could not keep up with initial demand and placed ads to consumers apologizing for the problem. When demand is higher than supply, the door opens for competitors to enter the market, which is what happened when the microwave was introduced. Most people own a microwave, and prices have dropped significantly since Amana introduced the first microwave at a price of almost \$500. As consumers in the United States initially saw and heard about the product, sales increased from forty thousand units to over a million units in only a few years. Sales in Japan increased even more rapidly due to a lower price. As a result of the high demand in both countries, many competitors entered the market and prices dropped<sup>2</sup>.

Product pricing strategies in the introductory stage can vary depending on the type of product, competing products, the extra value the product provides consumers versus existing offerings, and the costs of developing and producing the product. Organizations want consumers to perceive that a new offering is better or more desirable than existing products. Two strategies that are widely used in the introductory stage are penetration pricing and skimming. A penetration pricing strategy involves using a low initial price to encourage many customers to try a product. The organization hopes to sell a high volume in order to generate substantial revenues. New varieties of cereals, fragrances of

shampoo, scents of detergents, and snack foods are often introduced at low initial prices. Seldom does a company utilize a high price strategy with a product such as this. The low initial price of the product is often combined with advertising, coupons, samples, or other special incentives to increase awareness of the product and get consumers to try it.

A company uses a skimming pricing strategy, which involves setting a high initial price for a product, to more quickly recoup the investment related to its development and marketing. The skimming strategy attracts the top, or high end, of the market. Generally this market consists of customers who are not as price sensitive or who are early adopters of products. Firms that produce electronic products such as DVRs, plasma televisions, and digital cameras set their prices high in the introductory stage. However, the high price must be consistent with the nature of the product as well as the other marketing strategies being used to promote it. For example, engaging in more personal selling to customers, running ads targeting specific groups of customers, and placing the product in a limited number of distribution outlets are likely to be strategies firms use in conjunction with a skimming approach.

## The Growth Stage

If a product is accepted by the marketplace, it enters the growth stage of the product life cycle. The growth stage is characterized by increasing sales, more competitors, and higher profits. Unfortunately for the firm, the growth stage attracts competitors

who enter the market very quickly. For example, when Diet Coke experienced great success, Pepsi soon entered with Diet Pepsi. You'll notice that both Coca-Cola and Pepsi have similar competitive offerings in the beverage industry, including their own brands of bottled water, juice, and sports drinks. As additional customers begin to buy the product, manufacturers must ensure that the product remains available to customers or run the risk of them buying competitors' offerings. For example, the producers of video game systems such as Nintendo's Wii could not keep up with consumer demand when the product was first launched. Consequently, some consumers purchased competing game systems such as Microsoft's Xbox.

Figure 7.2d



Demand for the Nintendo Wii increased sharply after the product's introduction.

Link576 – Nintendo Wii (Original Box Design) – CC BY-SA 2.0.

A company sometimes increases its promotional spending on a product during its growth stage. However, instead of encouraging consumers to try the product, the promotions often focus on the specific benefits the product offers and its value relative to competitive offerings. In other words, although the company must still inform and educate customers, it must counter the competition. Emphasizing the advantages of the product's brand name can help a company maintain its sales in the face of competition. Although different organizations produce personal computers, a highly recognized brand such as IBM strengthens a firm's advantage when competitors enter the market. New offerings that utilize the same successful brand name as a company's already existing offerings, which is what Black & Decker does with some of its products, can give a company a competitive advantage. Companies typically begin to make a profit during the growth stage because more units are being sold and more revenue is generated.

The number of distribution outlets (stores and dealers) utilized to sell the product can also increase during the growth stage as a company tries to reach as much of the marketplace as possible. Expanding a product's distribution and increasing its production to ensure its availability at different outlets usually results in a product's costs remaining high during the growth stage. The price of the product itself typically remains at about the same level during the growth stage, although some companies reduce their prices slightly to attract additional buyers and meet the competitors' prices. Companies hope by increasing their sales, they also improve their profits.

# The Maturity Stage

After many competitors enter the market and the number of potential new customers declines, the sales of a product typically begin to level off. This indicates that a product has entered the maturity stage of its life cycle. Most consumer products are in the mature stage of their life cycle; their buyers are repeat purchasers versus new customers. Intense competition causes profits to fall until only the strongest players remain. The maturity stage lasts longer than other stages. Quaker Oats and Ivory Soap are products in the maturity stage—they have been on the market for over one hundred years.

Given the competitive environment in the maturity stage, many products are promoted heavily to consumers by stronger competitors. The strategies used to promote the products often focus on value and benefits that give the offering a competitive advantage. The promotions aimed at a company's distributors may also increase during the mature stage. Companies may decrease the price of mature products to counter the competition. However, they must be careful not to get into "price wars" with their competitors and destroy all the profit potential of their markets, threatening a firm's survival.

Companies are challenged to develop strategies to extend the maturity stage of their products so they remain competitive. Many firms do so by modifying their target markets, their offerings, or their marketing strategies. Next, we look at each of these strategies.

Modifying the target market helps a company attract different customers by seeking new users, going after different market segments, or finding new uses for a product in order to attract additional customers. Financial institutions and automobile dealers realized that women have increased buying power and now market to them. With the growth in the number of online shoppers, more organizations sell their products and services through the Internet.

Entering new markets provides companies an opportunity to extend the product life cycles of their different offerings.

## Figure 7.2e McDonald's in China



IvanWalsh.com – McCafe McDonalds Chinese Shopping Mall – CC BY 2.0.

Many companies enter different geographic markets or international markets as a strategy to get new users. A product that might be in the mature stage in one country might be in the introductory stage in another market. For example, when the U.S. market became saturated, McDonald's began opening restaurants in foreign markets. Cell phones were very popular in Asia before they were introduced in the United States. Many cell phones in Asia are being used to scan coupons and to charge purchases. However, the market in the United States might not be ready for that type of technology.

Modifying the product, such as changing its packaging, size, flavors, colors, or quality can also extend the product's maturity stage. The 100 Calorie Packs created by Nabisco provide an example of how a company changed the packaging and size to provide convenience and one-hundred-calorie portions for consumers. While the sales of many packaged foods fell, the sales of the 100 Calorie Packs increased to over \$200 million, prompting Nabisco to repackage more products (Hunter, 2008). Kraft Foods extended the mature stage of different crackers such as Wheat Thins and Triscuits by creating different flavors. Although not popular with consumers, many companies downsize (or decrease) the package sizes of their products or the amount of the product in the packages to save money and keep prices from rising too much.

Car manufacturers modify their vehicles slightly each year to offer new styles and new safety features. Every three to five years, automobile manufacturers do more extensive modifications. Some companies, such as Lincoln, change the name of their models to reflect a 'refresh' in their branding. Changing the package or adding variations or features are common ways to extend the mature stage of the life cycle. Pepsi recently changed the design and packaging of its soft drinks and Tropicana juice products. However, consumers thought the new juice package looked like a less expensive brand, which made the quality of the product look poorer. As a result, Pepsi

resumed the use of the original Tropicana carton. Pepsi's redesigned soda cans also received negative consumer reviews.

When introducing products to international markets, firms must decide if the product can be standardized (kept the same) or how much, if any, adaptation, or changing, of the product to meet the needs of the local culture is necessary. Although it is much less expensive to standardize products and promotional strategies, cultural and environmental differences usually require some adaptation. Product colors and packages as well as product names must often be changed because of cultural and legal differences. For example, in many Asian and European countries, Coca-Cola's diet drinks are called "light," not diet, due to legal restrictions on how the word diet can be used. GE makes smaller appliances such as washers and dryers for the Japanese market because houses tend to be smaller and don't have the room for larger models. Hyundai Motor Company had to improve the quality of its automobiles in order to compete in the U.S. market. Companies must also examine the external environment in foreign markets since the regulations, competition, and economic conditions vary as well as the cultures.

## Figure 7.2f



In Europe, diet drinks are called “light,” not diet. This Coca-Cola product is available in Germany.

Wikimedia Commons – Botella de Coca Cola – CC BY-SA 3.0.

Some companies modify the marketing strategy for one or more marketing variables of their products. For example, many coffee shops and fast-food restaurants such as McDonald's now offer specialty coffee that competes with Starbucks. As a result, Starbucks' managers decided it was time to change the company's strategy. Over the years, Starbucks had added lunch offerings and moved away from grinding coffee in the stores to provide faster service for its customers. However, customers missed the coffee shop atmosphere and the aroma of freshly brewed coffee and didn't like the smell of all the lunch items.

As a result of falling market share, Starbucks' former CEO and founder Howard Schultz returned to the company. Schultz hired consultants to determine how to modify the firm's offering and extend the maturity stage of their life cycle. Subsequently, Starbucks changed the atmosphere of many of its stores back to that of traditional coffee shops, modified its lunch offerings in many stores, and resumed grinding coffee in stores to provide the aroma customers missed. The company also modified some of its offerings to provide health-conscious consumers lower-calorie alternatives (Horovitz, 2008). After the U.S. economy weakened in 2009, Starbucks announced it would begin selling instant coffee for about a dollar a cup to appeal to customers who were struggling financially but still wanted a special cup of coffee. The firm also changed its communication with customers by utilizing more interactive media such as blogs.

## Figure 7.2g



The oldest operating McDonald's is in California.

Wikimedia Commons – CC BY-SA 2.5.

Whereas Starbucks might have overexpanded, McDonald's plans to add fourteen thousand coffee bars to selected stores<sup>3</sup>. In addition to the coffee bars, many McDonald's stores are remodeling their interiors to feature flat screen televisions, recessed lighting, and wireless Internet access. Other McDonald's restaurants kept their original design, which customers still like.

# The Decline Stage

When sales decrease and continue to drop to lower levels, the product has entered the decline stage of the product life cycle. In the decline stage, changes in consumer preferences, technological advances, and alternatives that satisfy the same need can lead to a decrease in demand for a product. How many of your fellow students do you think have used a typewriter, adding machine, or slide rule? Computers replaced the typewriter and calculators replaced adding machines and the slide rule. Ask your parents about eight-track tapes, which were popular before cassette tapes, which were popular before CDs, which were popular before MP3 players, Internet radio and other streaming services. Some products decline slowly. Others go through a rapid level of decline. Many fads and fashions for young people tend to have very short life cycles and go “out of style” very quickly. (If you’ve ever asked your parents to borrow clothes from the 1990s, you may be amused at how much the styles have changed.) Similarly, many students don’t have landline phones or VCR players and cannot believe that people still use the “outdated” devices. Some outdated devices, like payphones, disappear almost completely as they become obsolete.

Technical products such as digital cameras, cell phones, and video games that appeal to young people often have limited life cycles. Companies must decide what strategies to take when their products enter the decline stage. To save money, some companies try to reduce their promotional expenditures on these products and the number of distribution outlets in which they are sold. They might implement price cuts to get customers to buy the product. Harvesting the product entails gradually reducing all costs spent on it, including investments made in the product and marketing costs. By reducing these costs, the company hopes that the profits from the product will increase until their inventory runs out. Another option for the company is divesting (dropping or

deleting) the product from its offerings. The company might choose to sell the brand to another firm or simply reduce the price drastically in order to get rid of all remaining inventory. If a company decides to keep the product, it may lose money or make money if competitors drop out. Many companies decide the best strategy is to modify the product in the maturity stage to avoid entering the decline stage.

## You Try It!



*An interactive H5P element has been excluded from this version of the text. You can view it online here:*

<https://iu.pressbooks.pub/mktgwip/?p=196#h5p-15>

## 7.3 Branding, Packaging, and Labeling

What comes to mind when someone says Coke or Nike or Microsoft? According to *Kantar*, the Amazon brand is the *strongest* brand in the world. However, a global study of consumers sponsored by Business Insider found that Peloton has the *best* brand. What is a “brand” and what do these studies mean when they report that one brand is the strongest or the best? The variation is dependent on the source, the measurements utilized, the geographic region used, and the specific date of the data analyzed.

### Branding

We have mentioned brands periodically throughout this text. But what is a brand? A brand is a name, picture, design, or symbol, or combination of those items, used by a seller to identify its offerings and to differentiate them from competitors’ offerings. Branding is the set of activities designed to create a brand and position it in the minds of consumers. Did you know that The Beatles started a recording studio called Apple? When Apple Computer was formed, Apple Corp., Ltd. (the Beatles’ recording studio), sued Apple Computer because two companies with the same name can create confusion among consumers. This wasn’t much of a problem when Apple was only selling computers, but following the release of the

iPod and launch of Apple's iTunes program, a case could be made that the companies' offerings are similar enough for consumers to confuse the two companies and their products. In fact, it wasn't until very recently that the lawsuit over the name was settled, some thirty years after the initial lawsuit was filed. Nonetheless, the situation signifies how important brand names are to the companies that own them.

A successful branding strategy is one that accomplishes what Coke and Apple have done—it creates consumer recognition of what the brand (signified by its name, picture, design, symbol, and so forth) means. Consequently, when marketing professionals are considering whether a potential new offering fits a company's image, they are very concerned about whether the offering supports the organization's brand and position in the mind of the consumer. For this reason, many consider branding to be much more than how the product is packaged or labeled, and they are right. Characteristics of the offering, such as pricing and quality, have to support the brand's position. If Apple (the brand) stands for innovation, then products and services have to be innovative. But branding itself refers to strategies that are designed to create an image and position in the consumers' minds.

A brand name, like Apple, is the spoken part of a brand's identity. A brand mark is the symbol, such as Coke's wave or Apple Computer's multicolor apple (not to be confused with Apple Records' green apple), associated with a brand. Brand names and brand marks are important to companies because consumers use them to make choices. That's why it was important to sort out the Apple brand. Each company wanted to make sure that consumers were getting what they wanted and would know what each brand meant.

An important decision companies must make is under which brand a new offering will be marketed. For example, Black & Decker makes power tools for consumers under its Black & Decker brand, while tools for more serious do-it-yourselfers and professionals are under its Dewalt brand. Deciding if a company's products should

all have the same brand or if different brands should be utilized is a family branding decision. **Family branding** occurs when all product have the same brand name. **Individual branding** occurs when products, product categories, or product lines, have their own brand. If Black & Decker decided to add to its Dewalt line new products such as coolers, portable radios, CD players, and other accessories construction professionals might find useful at a job site, the company would be creating a **brand extension**. A brand extension involves utilizing an existing brand name or brand mark for a new product category.

Why would Black & Decker add these accessories to the Dewalt line? If the company did, it would be because Dewalt already has a good reputation for high quality, long-lasting durability, and performance among construction professionals. These same professionals would trust the Dewalt brand to deliver. How a company like Black & Decker goes about building this trust is the subject of later chapters. For now, let's consider whether it is better for a company to market a new product via a brand extension or create an entirely new brand for the product.

One thing firms have to consider when they're branding a new offering is the degree of cannibalization that can occur across products. **Cannibalization** occurs when a firm's new offering eats into the sales of one of its older offerings. (Ideally, when you sell a new product, you hope that all of its sales come from your competitors' buyers or buyers that are new to the market.) A completely new offering will not result in cannibalization, whereas a line extension likely will. A brand extension will also result in some cannibalization if you sell similar products under another brand. For example, if Black & Decker already had an existing line of coolers, portable radios, and CD players when the Dewalt line of them was launched, the new Dewalt offerings might cannibalize some of the Black & Decker offerings.

Some marketers argue that cannibalization can be a good thing because it is a sign that a company is developing new and better

offerings. These people believe that if you don't cannibalize your own line, then your competitors will.

Brands can also be classified based on the type of brand. The most common types are Corporate Brands, Manufacturer Brands, Private Brands, and Generic Brands. It is common to hear or read of these terms and to realize that they are being used in different ways. Not everyone defines the terms the same way.

**Corporate brands** – brands that identify the organization. (i.e. Kellogg's)

**Manufacturer brands** – brands owned by the maker of the product. May be the same as corporate brands. (i.e. Pringles – a Kellogg brand)

**Private brands** – brands owned by the seller of the product that do not identify the maker of the product (i.e. Sam's Choice – a Walmart brand). Also known as store brands, dealer brands, and private-label brands.

**Generic brands** – brands that are not known and/or advertised. Sometimes it means no brand on the packaging.

Image 7.3a: generic can of sweet peas



Courtesy of the Michigan State University College of Agriculture and Natural Resources

# Packaging Decisions

Another set of questions to consider involves the packaging on which a brand's marks and name will be prominently displayed. Sometimes the package itself is part of the brand. For example, the curvaceous shape of Coca-Cola's Coke bottle is a registered trademark. If you decide to market your beverage in a similar-shaped bottle, Coca-Cola's attorneys will have grounds to sue you.

Figure 7.3b



Sometimes the package itself is part of a licensed brand. Coke's curvaceous bottle is an example.

laxysupper – Coke – CC BY NC-ND 2.0.

Packaging has to fulfill a number of important functions, including

- communicating the brand and its benefits;
- protecting the product from damage and contamination during shipment, as well as damage and tampering once it's in retail outlets;
- preventing leakage of the contents;
- presenting government-required warning and information labels.

Sometimes packaging can fulfill other functions, such as serving as part of an in-store display designed to promote the offering.

## Figure 7.3c



A single wholesale unit of a product, such as these empty cartons shown here, is an example of secondary packaging. Each of these boxes might hold, for example, twenty-four cans of car polish or thirty-six cans of bug spray.

z287marc – Three Empty Boxes – CC BY 2.0.

**Primary packaging** holds a single retail unit of a product. For example, a bottle of Coke, a bag of M&Ms, or a ream of printer paper (five hundred sheets) are all examples of primary packages. Primary packaging can be used to protect and promote products and get the attention of consumers. Primary packaging can also be used to demonstrate the proper use of an offering, provide instructions on how to assemble the product, or any other needed information. If warning or nutrition labels are required, they must be on the

primary packaging. Primary packaging can be bundled together as well. Consumers can buy bottles of Coke sold in six-packs or cans of Coke in twelve-packs, for example.

**Secondary packaging** holds a single wholesale unit of a product. A case of M&M bags is an example, as are cartons of reams of paper. Secondary packaging is designed more for retailers than consumers. It does not have to carry warning or nutrition labels but is still likely to have brand marks and labels. Secondary packaging further protects the individual products during shipping.

**Tertiary packaging** is packaging designed specifically for shipping and efficiently handling large quantities. When a Coca-Cola bottler ships cases of Cokes to a grocery store, they are stacked on pallets (wooden platforms) and then wrapped in plastic. Pallets can be easily moved by a forklift truck and can even be moved within the grocery store by a small forklift.

## Figure 7.3d



This product is bound in tertiary packaging so that mass quantities of it can be stacked on pallets and moved with a forklift.

Mike Mozart – Pallets – CC BY 2.0.

A product's packaging can benefit the customer beyond just protecting the offering while it's being shipped. No-spill caps, for example, can make it easier for you to use your laundry detergent or prevent spills when you're adding oil to your car's engine. And, as we have noted, secondary packaging (and also tertiary packaging) can serve as part of an in-store display, thereby adding value for your retailers.

## Labeling

Labels on packaging serve many functions. They provide needed and desired information, such as instructions, ingredients, and warnings. There are a number of labelling requirements as stated by the Food and Drug Administration (FDA), the Federal Trade Commission (FTC) and according to the Fair Labelling and Packaging Act, to name a few. These requirements are industry specific and are modified and updated continuously. Some of the requirements can be viewed at the National Institute of Standards and Technology's (NIST's) website.

## 7.4 New Product Development Process

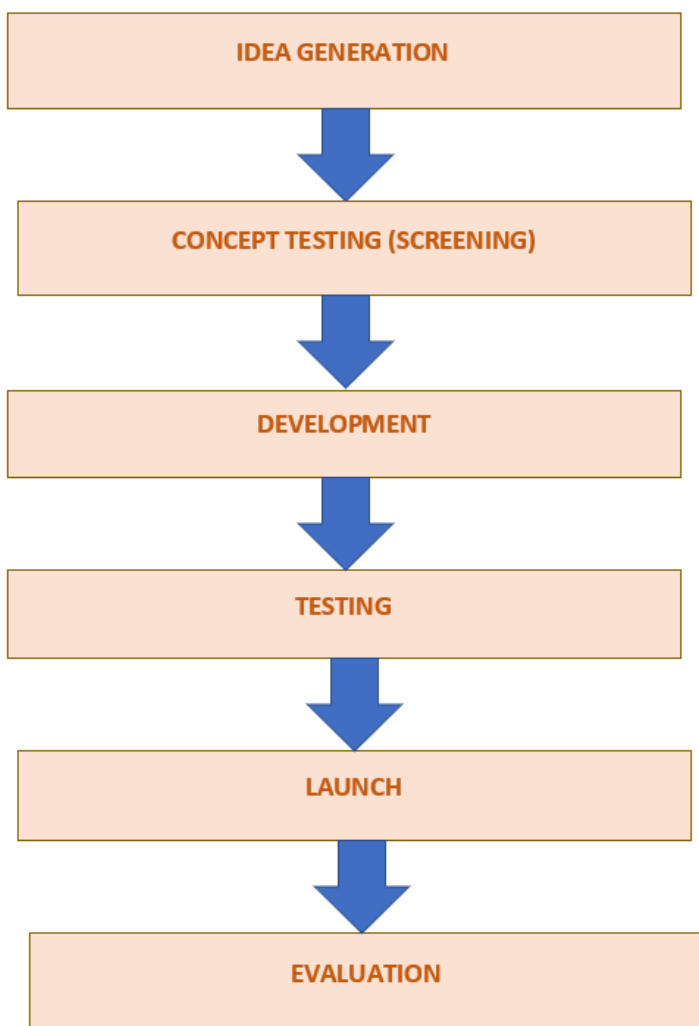
### Importance of New Products

New products are the life blood of organizations. As competition improves their offerings, new advances are made, trends change, and target market desire's fluctuate, companies need to be ready to meet the new demand effectively. This means companies need to have a variety of new products in various stages of the new product development process so they can be proactive in meeting changing demands.

It is important to note that a 'new' product includes modifications to existing products.

Most new offerings go through similar stages in their development process. Although the size of a company will affect how the different stages of their new product development process are conducted and whether products are test marketed before being introduced, the steps are generally the same. Figure 7.4a "The New Offering Development Process" summarizes these steps.

### Figure 7.4a The New Offering Development Process



# Idea Generation

Many companies, HP and Apple included, were launched in someone's garage after the founders got an idea for a product and then tried to make and sell it. HP's first product was an audio oscillator that two Stanford University students developed. Apple's Macintosh microcomputer was a low-cost knockoff of the Xerox Star, a software-equipped workstation. Apple's cofounder, Steve Jobs, saw the product demonstrated at a Xerox research center and Xerox was an early investor in Apple (Fisher, 1989).

Figure 7.4b



Ideas can come from anywhere. A Motorola employee came up with an idea for a new cell phone while rollerblading. His idea was to use the wheels of the roller blades to generate electricity to charge a cell phone or MP3 player.

brownpau – Goodbye, old rollerblades – CC BY 2.0.

Employees often come up with new product ideas, too. At Motorola, engineers are working on a mobile phone that can be recharged by rubbing it on smooth surface. A Motorola engineer came up with the idea while rollerblading. He wondered if a small generator could be created to capture and store the energy generated by rollerblade wheels. This idea, in turn, led to the development of a small roller ball (like you would find on an old-style computer mouse) built into the mobile phone. To power up the phone, you just give it a roll.

Ideas can come from anywhere, including your customers. In fact, in business-to-business (B2B) markets, customers are probably the biggest source of new product ideas. Customers know what customers need and want, which provides organizations an indication of market needs. Customers who are good at generating new product ideas or applications of products are called lead users. These people are often courted by manufacturers for this purpose. Lead users exist in consumer markets, too. JCPenney, for example, utilizes a panel of women who help develop and improve the company's Ambrielle line of lingerie products.

Customers are particularly important cocreators of offerings when they are consuming products with service components. For example, if you provide your hairdresser with feedback while your hair is being cut, your input will alter the final style you receive. Similarly, a businessperson who provides her certified public accountant (CPA) with information and feedback about her firm will help the CPA develop better financial and tax plans for her business.

Suppliers provide another source of ideas for new products. A

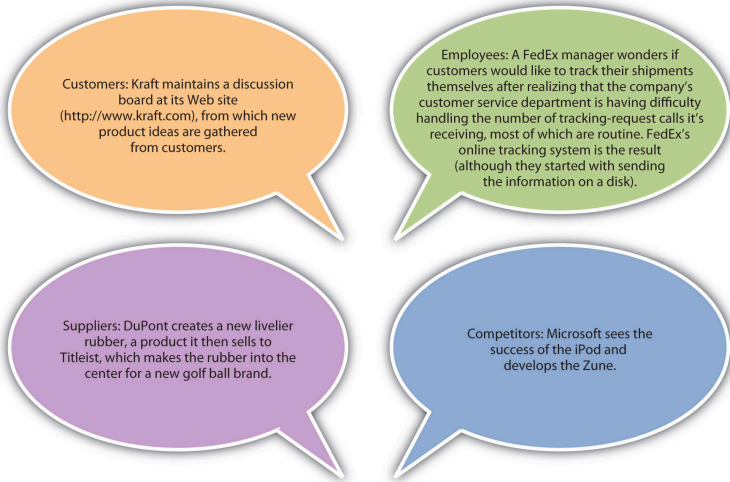
supplier might develop a new product or technology that can be used to make yet another product, and then go to the makers of those products and suggest new versions of them. For example, McClancy Seasoning Co. makes spices that restaurants and food processing companies use in their food products. McClancy's research and development department works with companies such as Campbell's to help them develop new and better offerings (for more information, visit [http://www.mcclancy.com/research\\_and\\_development.asp](http://www.mcclancy.com/research_and_development.asp)).

Of course, companies also watch their competitors to see what they're doing. Some offerings are protected by patents or copyrights and can't be legally duplicated. The software that runs Apple's iPhone is an example. There are, however, different ways to achieve the same results as Apple has with its iPhone. The Droid, manufactured by Motorola, and the G5, a copy of the Google phone, are devices similar to the iPhone that operate with software serving the same purpose.

Figure 7.4c "New Offering Ideas" shows some product ideas that came from each of the sources we have discussed—employees, customers, suppliers, and one's competitors. Innovations like the iPhone are rare. However, many new ideas (and consequently new products) aren't actually new but rather are versions of products and services already available. A line extension occurs when a company comes out with another model (related product) based on the same platform and brand as one of its other products. When Apple added the Nano and the Shuffle to its iPod line, these were line extensions.

# Figure 7.4c New Offering Ideas

And Then There Was ... Sources of New Offering Ideas



(<http://www.kraft.com>), from which new product ideas are gathered from customers. Employees: A FedEx manager wonders if customers would like to track their shipments themselves after realizing that the company's customer service department is having difficulty handling the number of tracking-request calls it's receiving, most of which are routine. FedEx's online tracking system is the result (although they started with sending the information on a disk). Suppliers: DuPont creates a new livelier rubber, a product it then sells to Titleist, which makes the rubber into the center for a new golf ball brand. Competitors: Microsoft sees the success of the iPod and develops the Zune." style="max-width: 497px;"/>

Keep in mind that idea generation is typically the least expensive step in the process of developing a new offering, whether you involve customers or not. As you move through the product development process, each step is usually more expensive than

the last. Ideas for new products are relatively cheap and easy to generate; what is difficult and expensive is making them a reality.

## Idea Screening / Concept Testing

Not all new product ideas are good ones. Famous product blunders include Ford Motor Company's Edsel, Clear Pepsi, and Coca-Cola's New Coke. Less famous is Dell's cell phone for aging baby boomers. The phone's large size, large buttons, and large screen screamed "I'm old and blind!" leading potential users to shun it in droves. Yes, even the big companies make mistakes.

Figure 7.4d



Better idea screening might have helped Coca-Cola avoid the problems it encountered marketing its “New Coke” formula.

Wikimedia Commons – New Coke can – public domain.

The purpose of idea screening is to try to avoid mistakes early in the development process. The sooner bad ideas are discarded, the less the investment made and lost. In the idea screening stage, the company tries to evaluate the new offering by answering these questions:

- Does the proposed product add value for the customer? Does it satisfy a market need?
- Can the product be made within a stated time period to get it

to market when needed?

- How many units of it will sell and at what price?
- Can we manufacture and sell the product within budget and still make money?
- Do we need to provide the customer with after-sales service? If so, do we have the resources to do that?
- Does the product fit our image and corporate strategy?

Some organizations conduct concept testing at this stage. Concept testing involves running the idea of the offering by potential consumers. The purpose is to get early consumer feedback before investing too much money in an offering that won't work. Some of the methods used to test concepts include focus groups, in which groups of eight to twelve consumers gather and react to the concept, and depth interviews, in which individuals are presented with the concept and can react to it individually. Focus groups and depth interviews are research techniques that can also be used later in the offering development process to test ideas, or for other purposes. Focus groups working virtually on the Web and by phone actually helped to develop this textbook. Concepts may also be tested online by creating an image and having people representative of the target market provide feedback. Whether using focus groups, depth interviewing, or online methods, concepts must be evaluated by people representative of the target market or the feedback is not relevant.

Because screening considers the feasibility of actually making and servicing an offering, price and cost are important components. If the company cannot sell the product in sufficient quantities to generate a profit, the idea must be scrapped. Understanding the customer's personal value equation (defined elsewhere as value being equal to benefits received minus the cost, which includes the time and effort of shopping and using) is an important consideration, too. If the value consumers receive from the product is less than the price the company charges for it, they will not buy

it. In other words, the offering must be financially feasible to justify investing in it.

The offering must also have process feasibility. Process feasibility is the degree to which the company can actually make and service the product. Process feasibility affects financial feasibility. If the product's costs cannot be controlled when it's being made or serviced, the firm's financial goals won't be met. Process feasibility also affects customer satisfaction. For example, many manufacturers make great-looking faucets, yet people had to have the "guts" of one faucet replaced three times before it would work, only to find the same experience with the same model was had by many customers. A great-looking design is really only great if it works right.

The question of strategic fit is a difficult one. The history of business is rife with examples of companies failing to develop winning new products only to see their competitors do so. For example, when the inventor Chester Carlson approached IBM executives with the idea of photocopying—the technology platform that later became the heart of Xerox Corporation—they turned Carlson down. IBM did not see the product fitting with its strategy and stopped before they fully considered the potential. Nor did IBM see the moneymaking opportunity the product presented.

## Figure 7.4e



A good product doesn't just look right. It also works right, which is the idea behind process feasibility.

Eric Norris – Faucet Drip 1 – CC BY 2.0.

At this point in the process, the company begins to assess two types of risk. The first is investment risk, or the possibility that the company will fail to earn the appropriate return on the money and effort (the investment) it puts into the new product. The second is opportunity risk, or the risk that there is a better idea that gets ignored because the firm has invested in the idea at hand. When a

company is assessing fit, it is assessing its opportunity risk. When it is assessing feasibility (both financial and process), it is assessing its investment risk. Other risk-related questions include whether or not the offering can be developed on time and within budget. Assessing a product's feasibility continues throughout the entire new product development process.

## Development

The next step involves narrowing down the product's features. Again, price enters the picture as the company considers which features are important to consumers at different price points. A premium (high-priced) offering is likely to be loaded with extra features. By contrast, a low-priced offering is likely to be a “bare-bones” product with few features.

Quality function deployment (QFD) is a process whereby a company begins with the customer's desired benefits and then designs an offering that delivers those benefits. The benefits are linked to certain characteristics of the offering, which are then broken down into component-part characteristics. From this list of component parts, the product is designed. Thus, the feature specifications process begins with a strong understanding of what consumers want and need.

HP has developed a number of computer printers using the QFD process. The QFD process has been particularly helpful when it comes to bundling the right features within the HP's printer line because each printer model can be targeted to specific customer needs. Customers can then purchase the model that best suits their needs and doesn't have a bunch of features that don't add value for them.

In the development stage, the actual offering is designed, specifications for it are written, and prototypes of it are developed. It is also during this stage that the firm considers the product's manufacturing process. For example, when a restaurant is developing a new dish, it must not only taste good; it must also be

a dish that can be made in a reasonable amount of time once it's ordered and prepared at a cost that earns the restaurant a profit. In terms of a manufacturer's offerings, using the same technology platform as another product (like Apple has done with iPhones) can be very effective and cheaper. Using the same platform also generally makes it easier for a company to train its technicians to service a new product.

This stage is not limited to physical products. Services need to be refined, processes determined, and execution tested.

During the development stage, testing is done to ensure that the product works like it's supposed to in a variety of different environments—that it meets its specifications, that is. For example, Kraft might launch a new food product that has to work in hot climates, cold climates, high humidity, dry climates, and high altitudes—all conditions that can change how well the product works. Many times, **alpha testing** is done by having employees use the product and getting their feedback.

The next step is **beta testing**. During beta testing, actual customers make sure the offering works under real-world conditions. Beta testing not only tests whether the offering works as advertised but also tests the offering's delivery mechanisms, service processes, and other aspects of marketing the product. This step can be an expensive as customers typically receive the product at a reduced rate. Depending on the product, some companies might find it better to simply launch the product and let the market respond to, or test, it once it is available for purchase.

In B2B settings, beta tests are usually conducted with lead users and preferred customers. The developer of the product needs a strong relationship with these customers because the product might still have bugs that need to be ironed out. If the relationship between the parties is "iffy," and the product or service needs a significant amount of changes, beta testing could damage the relationship between the two parties and hurt the developer of the product's sales.

# Testing

Simultaneous to testing the offering's ability to meet its specs, the company is also developing and testing the marketing communication plan that will be used to launch the product. Many companies involve consumer panels or user communities, both for testing the offering and the communication plan. As we mentioned, JCPenney solicits the advice of a user community for its Ambrielle line of lingerie. The company frequently runs concepts by the group as well as sends actual prototypes to users to try on and report back to the company. Similarly, the data warehousing company Teradata has a “partners” organization that consists of a community of users who participate in the firm's product design and testing.

Some companies test the complete launch of a product's marketing plan to ensure that it reaches buyers, gets positive feedback, and generates sales of the product or service. This is called a market test. Companies may conduct market tests in limited markets or nationwide. For example, when one beverage maker tested the marketing plan for a new wine cooler, the firm first launched the product on the east coast, where the beverage was promoted as a “Polynesian” drink; on the west coast, the beverage was promoted as an “Australian” drink. The Polynesian version proved more popular, so in other new markets, that's how the beverage was advertised and packaged. This allows the product and the strategy to be tested with actual customers in a limited geographic area. Ideally, the customers do not know this is a market test thus ensuring a realistic response that can be compared to forecasts.

# Launch or Commercialization

Once an offering has been designed and tested, it is made available to customers. Sometimes a company launches the offering to all of its markets at once. Other companies may use a rolling launch in which the offering is made available to certain markets first and then other markets later. A rolling launch might make sense if the company's service technicians need training. The company makes the offering available to one market after the first batch of its employees are prepared to service the product; then as new batches of employees are prepared to service the product, the company enters more markets. While this stage is the 'goal' of the entire process, it is the most expensive – thus the riskiest – stage. Ensuring the proper attention to detail and time is devoted to each of the previous stages will limit the risk.

## Evaluation

Once an offering is launched, a firm's executives carefully monitor its progress. Two specific areas are monitored: the product and its progress, and the new product development process itself.

You have probably heard about the “box office” sales for new

movies the first weekend following their release. The first weekend is a good predictor of how much money a movie will make overall. If the ticket sales for it are high during the first weekend, a studio's executives might decide to beef up the promotions for it. If the ticket sales for the movie are low, the studio might stop screening the movie in theaters altogether and release it on DVD instead. For other types of offerings, important milestones might be the first ninety days after the product is launched, followed by a second period of ninety days, and so forth. However, be aware that firms are constantly in the process of evaluating their offerings and modifying them by either adding or subtracting the features and services associated with them, changing their prices, or how they are marketed. The length of time for milestones used to evaluate products may vary depending on the organization and other products or services being developed.

No matter how successful, or not successful, a product launch may be, a thorough debrief of the process should be conducted. Where could better efficiencies been utilized? where could time have been saved? what things were not considered? Constantly looking for ways to improve processes is the hallmark of any successful firm.

## You Try It!



An interactive H5P element has been excluded from this version of the text. You can view it online here:

<https://iu.pressbooks.pub/mktgwip/?p=200#h5p-16>

# CHAPTER 8: PRICING

## Learning Objectives

1. Students will understand the factors impacting the pricing decision
2. Students will be able to analyze the impact and perceptions of pricing from the viewpoints of cost, competition, and customers
3. Students will be able to articulate to goals of multiple pricing strategies and tactics.

## Introduction

From a customer's point of view, value is the sole justification for price. Many times customers lack an understanding of the cost of materials and other costs that go into the making of a product. But those customers can understand what that product does for them in the way of providing value. It is on this basis that customers make decisions about the purchase of a product.

Effective pricing meets the needs of consumers and facilitates the exchange process. It requires that marketers understand that not all buyers want to pay the same price for products, just as they do not all want the same product, the same distribution outlets, or the same promotional messages. Therefore, in order to effectively price products, markets must distinguish among various market segments. The key to effective pricing is the same as the key to

effective product, distribution, and promotion strategies. Marketers must understand buyers and price their products according to buyer needs if exchanges are to occur. However, one cannot overlook the fact that the price must be sufficient to support the plans of the organization, including satisfying stockholders. Price charged remains the primary source of revenue for most businesses.

In this chapter, we will examine influences on pricing, pricing strategies, and pricing adjustments. Your challenge will be to leave your consumer mindset behind, and to examine this subject as a business executive.

## 8.1 Internal Factors Impacting Pricing

Prices can be easily changed and easily matched by your competitors. Consequently, your product's price alone might not provide your company with a sustainable competitive advantage. Nonetheless, prices can attract consumers to different retailers and businesses to different suppliers.

Organizations must remember that the prices they charge should be consistent with their offerings, promotions, and distribution strategies. In other words, it wouldn't make sense for an organization to promote a high-end, prestige product, make it available in only a limited number of stores, and then sell it for an extremely low price. The price, product, promotion (communication), and placement (distribution) of a good or service should convey a consistent image. If you've ever watched the television show *The Price Is Right*, you may wonder how people guess the exact price of the products.

In this section we will examine the four internal factors that impact the pricing decision: Company Objectives, Pricing Objectives, Costs, and the Marketing Mix

### I. Company Objectives

All decisions made within a strategy need to be consistent with the company's mission, values, and objectives. For example, if the company values being regarded as the leader in their industry in terms of innovation, service, and functional quality, a decision to focus on the lowest price possible would be incongruent with the organization's objectives.

## II. Pricing Objectives

The pricing strategy can accomplish multiple objectives and it is common to have more than one objective. Different firms want to accomplish different things with their pricing strategies. For example, one firm may want to capture market share, another may be solely focused on maximizing its profits, and another may want to be perceived as having products with prestige.

### A. Earning a targeted ROI

ROI, or return on investment, is the amount of profit an organization hopes to make given the amount of assets, or money, it has tied up in a product. ROI is a common pricing objective for many firms. Companies typically set a certain percentage, such as 10 percent, for ROI in a product's first year following its launch. So, for example, if a company has \$100,000 invested in a product and is expecting a 10 percent ROI, it would want the product's profit to be \$10,000.

### B. Maximizing Profits

Many companies set their prices to increase their revenues as much as possible relative to their costs. However, large revenues do not necessarily translate into higher profits. To maximize its profits, a company must also focus on cutting costs or implementing programs to encourage customer loyalty.

In weak economic markets, many companies manage to cut costs and increase their profits, even though their sales are lower. How do they do this? The Gap cut costs by doing a better job of controlling its inventory. The retailer also reduced its real estate holdings to increase its profits when its sales were down during the latest economic recession. Other firms such as Dell, Inc., cut jobs to increase their profits. Meanwhile, Walmart tried to lower its prices

so as to undercut its competitors' prices to attract more customers. After it discovered that wealthier consumers who didn't usually shop at Walmart before the recession were frequenting its stores, Walmart decided to upgrade some of its offerings, improve the checkout process, and improve the appearance of some of its stores to keep these high-end customers happy and enlarge its customer base. Other firms increased their prices or cut back on their marketing and advertising expenses. A firm has to remember, however, that prices signal value. If consumers do not perceive that a product has a high degree of value, they probably will not pay a high price for it. Furthermore, cutting costs cannot be a long-term strategy if a company wants to maintain its image and position in the marketplace.

### **C. Maximizing Sales**

Maximizing sales involves pricing products to generate as much revenue as possible, regardless of what it does to a firm's profits. When companies are struggling financially, they sometimes try to generate cash quickly to pay their debts. They do so by selling off inventory or cutting prices temporarily. Such cash may be necessary to pay short-term bills, such as payroll. Maximizing sales is typically a short-term objective since profitability is not considered.

### **D. Maximizing Market Share**

Some organizations try to set their prices in a way that allows them to capture a larger share of the sales in their industries. Capturing more market share doesn't necessarily mean a firm will earn higher profits, though. Nonetheless, many companies believe capturing a maximum amount of market share is downright necessary for their survival. In other words, they believe if they remain a small competitor they will fail. Firms in the cellular phone industry are an example. The race to be the biggest cell phone provider has hurt

companies like Motorola. Motorola holds only 10 percent of the cell phone market, and its profits on their product lines are negative.

## **E. Customers**

How will buyers respond? Three important factors are whether the buyers perceive the product offers value, how many buyers there are, and how sensitive they are to changes in price. In addition to gathering data on the size of markets, companies must try to determine how price sensitive customers are. Will customers buy the product, given its price? Or will they believe the value is not equal to the cost and choose an alternative or decide they can do without the product or service? Equally important is how much buyers are willing to pay for the offering. Figuring out how consumers will respond to prices involves judgment as well as research. This will be discussed later in this chapter in more detail. However, it's important to note that the price sends messages to the consumer regarding the quality and/or value of a product.

## **F. Competitors**

How competitors price and sell their products will have a tremendous effect on a firm's pricing decisions. If you wanted to buy a certain pair of shoes, but the price was 30 percent less at one store than another, what would you do? Because companies want to establish and maintain loyal customers, they will often match their competitors' prices. Some retailers, such as Home Depot, will give you an extra discount if you find the same product for less somewhere else. Similarly, if one company offers you free shipping, you might discover other companies will, too. With so many products sold online, consumers can compare the prices of many merchants before making a purchase decision.

The availability of substitute products affects a company's pricing decisions as well. If you can find a similar pair of shoes selling for

50 percent less at a third store, would you buy them? There's a good chance you might.

## G. Maintaining the Status Quo

Sometimes a firm's objective may be to maintain the status quo or simply meet, or equal, its competitors' prices or keep its current prices. Airline companies are a good example. Have you ever noticed that when one airline raises or lowers its prices, the others all do the same? If consumers don't accept an airline's increased prices (and extra fees) such as the charge for checking in with a representative at the airport rather than checking in online, other airlines may decide not to implement the extra charge and the airline charging the fee may drop it. Companies, of course, monitor their competitors' prices closely when they adopt a status quo pricing objective.

Having a pricing objective isn't enough. A firm also has to look at a myriad of other factors before setting its prices.

### III. Costs

The costs of the product—its inputs—including the amount spent on product development, testing, and packaging required have to be taken into account when a pricing decision is made. So do the costs related to promotion and distribution. For example, when a new offering is launched, its promotion costs can be very high because people need to be made aware that it exists. Thus, the offering's stage in the product life cycle can affect its price. Keep in mind that a product may be in a different stage of its life cycle in other markets. For example, while sales of the iPhone remain fairly constant in the United States, the Koreans felt the phone was not as good as their current phones and was somewhat obsolete. Similarly, if a company has to open brick-and-mortar storefronts to distribute and sell the offering, this too will have to be built into the price the firm must charge for it.

The point at which total costs equal total revenue is known as the breakeven point (BEP). For a company to be profitable, a company's revenue must be greater than its total costs. If total costs exceed total revenue, the company suffers a loss.

Total costs include both fixed costs and variable costs. Fixed costs, or overhead expenses, are costs that a company must pay regardless of its level of production or level of sales. A company's fixed costs include items such as rent, leasing fees for equipment, contracted advertising costs, and insurance. As a student, you may also incur fixed costs such as the rent you pay for an apartment. You must pay your rent whether you stay there for the weekend or not. Variable costs are costs that change with a company's level of production and sales. Raw materials, labor, and commissions on units sold are examples of variable costs. You, too, have variable costs, such as the cost of gasoline for your car or your utility bills, which vary depending on how much you use.

## IV. The Marketing Mix

Congruency is an important component of any marketing strategy. Thus, when determining a price, the product, the packaging, where/how the product will be sold, and the promotional messaging need to be considered. If the product is of high quality, for example, a low price will send a mixed message to the customer. Customers do not buy when they receive mixed messages.

## 8.2 External Factors Impacting Pricing

In the last section, we looked at factors internal to the organization that impact the pricing strategy. In this section we will explore external factors that impact the pricing decision. These factors cannot be controlled by the organization but can be influenced and addressed by proper research and strategizing.

### I. The Distribution Channel

In the case of service providers or direct channels, the producer determines the price to the end user. This is not the case when middlemen are involved. With indirect channels, the producer sets a price for the next channel member (i.e. wholesaler). That channel member will then add their mark-up, based on their costs and profit requirements, and set a new price for the next channel member (i.e. retailer), where this process is repeated. In other words, the price the producer sets is not the price charged to the end user.

To ensure a final competitive price that is congruent with the marketing strategy, the producer needs to set an initial price that allows for the costs and profit requirements of the rest of the channel.

## II. Customer Reactions and Expectations

### A. Elasticity

Price elasticity, or people's sensitivity to price changes, affects the demand for products. Think about a pair of sweatpants with an elastic waist. You can stretch an elastic waistband like the one in sweatpants, but it's much more difficult to stretch the waistband of a pair of dress slacks. Elasticity refers to the amount of stretch or change. For example, the waistband of sweatpants may stretch if you pull on it. Similarly, the demand for a product may change if the price changes. Imagine the price of a twelve-pack of sodas changing to \$1.50 a pack. People are likely to buy a lot more soda at \$1.50 per twelve-pack than they are at \$4.50 per twelve-pack. Conversely, the waistband on a pair of dress slacks remains the same (doesn't change) whether you pull on it or not. Likewise, demand for some products won't change even if the price changes. The formula for calculating the price elasticity of demand is as follows.

Price elasticity = percentage change in quantity demanded ÷ percentage change in price

When consumers are very sensitive to the price change of a product—that is, they buy more of it at low prices and less of it at high prices—the demand for it is price elastic. Goods such as TVs, stereos, and freezers are more price elastic than necessities. People are more likely to buy them when their prices drop and less likely to buy them when their prices rise. By contrast, when the demand for a product stays relatively the same and buyers are not sensitive to changes in its price, the demand is price inelastic. Demand for essential products such as many basic food and first-aid products is not as affected by price changes as demand for many nonessential goods.

The number of competing products and substitutes available affects the elasticity of demand. Whether a person considers a

product a necessity or a luxury and the percentage of a person's budget allocated to different products and services also affect price elasticity. Some products, such as cigarettes, tend to be relatively price inelastic since most smokers keep purchasing them regardless of price increases and the fact that other people see cigarettes as unnecessary. Service providers, such as utility companies in markets in which they have a monopoly (only one provider), face more inelastic demand since no substitutes are available.

## B. Customer Preferences

How important is price to you? My guess is your first response is "Very!" But is that true? There are some product you purchase that you simply look for the lowest price. There are some products you purchase where price is not important at all. Probably the majority of your purchases fall somewhere between. Price is considered but it is not the most important element is making your choice. Understanding how the target market for a specific product views the importance of price, guides the pricing decision.

## III. Competition

As discussed in the previous section, pricing impacts the ability to compete. Students often assume that to be a competitive, an organization needs to price their product below the competition. In some situations, that is accurate. But, in many situations, it is not. Pricing sends a message about the quality of the product. It also reflects the reputation of the brand. In terms of their competition, a company has three choices when setting their product's price:

- set the price higher than the competition thus sending a

message of higher quality and/or exclusivity

- set the price the same as the competition thus engaging in non-price competition
- set the price lower than the competition thus competing on price and running the risk of a price war. With a price war, competitors keep trying to win market share by having the lowest price. Buyers win with a price wars; competitors do not.

## IV. Government Laws and Regulations

### A. Price Discrimination

Pricing decisions are affected by federal and state regulations. Regulations are designed to protect consumers, promote competition, and encourage ethical and fair behavior by businesses. For example, the Robinson-Patman Act limits a seller's ability to charge different customers different prices for the same products. The intent of the act is to protect small businesses from larger businesses that try to extract special discounts and deals for themselves in order to eliminate their competitors. However, cost differences, market conditions, and competitive pricing by other suppliers can justify price differences in some situations. In other words, the practice isn't illegal under all circumstances. You have probably noticed that restaurants offer senior citizens and children discounted menus. The movies also charge different people different prices based on their ages and charge different amounts based on the time of day, with matinees usually less expensive than evening shows. These price differences are legal. We will discuss more about price differences later in the chapter.

## B. Price Fixing

Price fixing, which occurs when firms get together and agree to charge the same prices, is illegal. Usually, price fixing involves setting high prices so consumers must pay a high price regardless of where they purchase a good or service. Video systems, LCD (liquid crystal display) manufacturers, auction houses, and airlines are examples of offerings in which price fixing existed. When a company is charged with price fixing, it is usually ordered to take some type of action to reach a settlement with buyers.

Price fixing isn't uncommon. Nintendo and its distributors in the European Union were charged with price fixing and increasing the prices of hardware and software. Sharp, LG, and Chungwa collaborated and fixed the prices of the LCDs used in computers, cell phones, and other electronics. Virgin Atlantic Airways and British Airways were also involved in price fixing for their flights. Sotheby's and Christie's, two large auction houses, used price fixing to set their commissions.

## C. Predatory Pricing

By requiring sellers to keep a minimum price level for similar products, unfair trade laws protect smaller businesses. Unfair trade laws are state laws preventing large businesses from selling products below cost (as loss leaders) to attract customers to the store. When companies act in a predatory manner by setting low prices to drive competitors out of business, it is a predatory pricing strategy. As we will discuss later in this chapter, there are times loss leaders are legal. The differentiation become the intent. If the intent is to put competitors out of business, it is illegal.

## D. Bait and Switch

Similarly, bait-and-switch pricing is illegal in many states. Bait and switch, or bait advertising, occurs when a business tries to “bait,” or lure in, customers with an incredibly low-priced product. Once customers take the bait, sales personnel attempt to sell them more expensive products. Sometimes the customers are told the cheaper product is no longer available.

You perhaps have seen bait-and-switch pricing tactics used to sell different electronic products or small household appliances. While bait-and-switch pricing is illegal in many states, stores can add disclaimers to their ads stating that there are no rain checks or that limited quantities are available to justify trying to get you to buy a different product. However, the advertiser must offer at least a limited quantity of the advertised product, even if it sells out quickly.

It is legal to ‘upsell’ a product. Upselling means trying to get customers to purchase a ‘better’, more expensive product. It is when customers are prevented from buying a promoted product that the legal line is crossed.

## V. You Try It! – Factors Impacting Pricing



*An interactive H5P element has been excluded from this version of the text. You can view it online here:*

<https://iu.pressbooks.pub/mktgwip/?p=238#h5p-17>

## 8.3 Price Determination Decisions

Price determination decisions can be based on a number of factors, including cost, demand, competition, value, or some combination of factors. However, while many marketers are aware that they should consider these factors, pricing remains somewhat of an art. For purposes of discussion, we categorize the alternative approaches to determining price as follows: (a) cost-oriented pricing; (b) competition-oriented pricing; and (c) value-based (demand) approaches.

### I. Cost-oriented pricing

#### A. Cost-plus pricing

The cost-plus method, sometimes called gross margin pricing, is perhaps most widely used by B2B marketers to set price. The manager selects as a goal a particular gross margin that will produce a desirable profit level. Gross margin is the difference between how much the goods cost and the actual price for which it sells.

A primary reason that the cost-plus method is attractive to marketers is that they do not have to forecast general business conditions or customer demand. If sales volume projections are reasonably accurate, profits will be on target. Consumers may also view this method as fair, since the price they pay is related to the cost of producing the item. Likewise, the marketer is sure that costs are covered.

A major disadvantage of cost-plus pricing is its inherent

inflexibility. For example, department stores have often found difficulty in meeting competition from discount stores, catalog retailers, or furniture warehouses because of their commitment to cost-plus pricing. Another disadvantage is that it does not take into account consumers' perceptions of a product's value. Finally, a company's costs may fluctuate so constant price changing is not a viable strategy.

## B. Mark-up pricing

When the term mark-up is used, it is referring to the difference between the average cost and price of all merchandise in stock, for a particular department, or for an individual item. The difference may be expressed in dollars or as a percentage, though percentage is more common. For example, a man's tie costs USD 4.60 and is sold for USD 8. The dollar mark-up is USD 3.40. The mark-up may be designated as a percent of selling price or as a percent of cost of the merchandise. In this example, the mark-up is 74 per cent of cost ( $\text{USD } 3.40 / \text{USD } 4.60$ ) or 42.5 percent of the retail price ( $\text{USD } 3.40 / \text{USD } 8$ ).

There are several reasons why expressing mark-up as a percentage of selling price is preferred to expressing it as a percentage of cost. One is that many other ratios are expressed as a percentage of sales. For instance, selling expenses are expressed as a percentage of sales. If selling costs are 8 per cent, this means that for each USD 100,000 in net sales, the cost of selling the merchandise is USD 8,000. Advertising expenses, operating expenses, and other types of expenses are quoted in the same way. Thus, there is a consistency when making comparisons in expressing all expenses and costs, including mark-up, as a percentage of sales (selling price).

Certainly costs are an important component of pricing. No firm can make a profit until it covers its costs. However, the process of determining costs and then setting a price based on costs does not take into consideration what the customer is willing to pay at the marketplace. As a result, many companies that have set out to develop a product have fallen victim to the desire to continuously add features to the product, thus adding cost. When the product is finished, these companies add some percentage to the cost and expect customers to pay the resulting price. These companies are often disappointed, as customers are not willing to pay this cost-based price.

## II. Competition-oriented pricing

Competition-oriented pricing is best utilized in highly competitive industries where buyers have proven to actively evaluate alternatives and to use pricing to assess quality. As discussed previously in this chapter, organizations have three options when basing pricing on the competition:

- Price the product higher than the competition thus sending a message that our brand is better, more consistent, and the product is a higher quality
- Price the product lower than the competition thus sending a message that we might be a lower quality but the customer can save money by purchasing our product. This is known as competing on price.
- Price the product the same as the competition thus engaging in non-price competition. This is appropriate if the competitive products are very similar and we choose to compete on something other than price.

### III. Value-based (demand) pricing

Value-based pricing sets prices primarily, but not exclusively, on the value, perceived or estimated, to the customer rather than on the cost of the product or historical prices. This strategy focuses entirely on the customer as a determinant of the total price/value package. Marketers who employ value-based pricing might use the following definition: “It is what you think your product is worth to that customer at that time.”

**Value-Based Pricing:** *Value-based pricing focuses entirely on the customer as a determinant of the total price or value package.*

Goods that are very intensely traded (e.g., oil and other commodities) or that are sold to highly sophisticated customers in large markets (e.g., automotive industry) usually are sold based on cost-based pricing. Value-based pricing is most successful when products are sold based on emotions (fashion), in niche markets, in shortages (e.g., drinks at open air festival at a hot summer day) or for indispensable add-ons (e.g., printer cartridges, headsets for cell phones).

Many customer-related factors are important in value-based pricing. For example, it is critical to understand the consumer buying process. How important is price? When is it considered? How is it used? Another factor is the *cost of switching*. Have you ever watched the television program, “The Price is Right”? If you have, you know that most consumers have poor price knowledge. Moreover, their knowledge of comparable prices within a product category (e.g., ketchup is typically worse). So *price knowledge* is a relevant factor. Finally, the marketer must assess the customers’ *price*

*expectations*. How much do you expect to pay for a large pizza? Color TV? Tablet? Swimming pool? These expectations create a phenomenon called “sticker shock” as exhibited by gasoline, automobiles, and ATM fees.

Value-based pricing is predicated upon an understanding of customer value. In many settings, gaining this understanding requires primary research. This may include evaluation of customer operations and interviews with customer personnel. Survey methods are sometimes used to determine value a customer attributes to a product or a service. The results of such surveys often depict a customer’s willingness to pay. The principal difficulty is that the willingness of the customer to pay a certain price differs between customers, between countries, even for the same customer in different settings (depending on his actual and present needs), so that a true value-based pricing at all times is impossible. Also, extreme focus on value-based pricing might leave customers with a feeling of being exploited which is not helpful for the companies in the long run. Two types of value-based pricing techniques are discussed below.

## **A. Improvement Pricing**

Improvement pricing is based on the functionality of a product. If this product is used, what is the cost savings to the customer over their current situation? This strategy is commonly used in industrial pricing, especially with factory equipment.

## **B. Dynamic Pricing**

A flexible pricing mechanism made possible by advances in information technology, and employed mostly by Internet based

companies. By responding to market fluctuations or large amounts of data gathered from customers – ranging from where they live to what they buy to how much they have spent on past purchases – dynamic pricing allows online companies to adjust the prices of identical goods to correspond to a customer's willingness to pay. The airline industry is often cited as a success story. In fact, it employs the technique so artfully that most of the passengers on any given airplane have paid different ticket prices for the same flight.

## 8.4 Pricing Strategies - B2B

Up to this point, we have discussed the setting of a price as if it is a static event: a price is determined and that's that. The initial price that is set is called the list price. There are many adjustments that happen to the list price before arriving at the final price, or the price the buyer pays. In this section and the next, we will discuss the adjustments that are made to the list price. This section will focus on common adjustments in the industrial markets while the next section will focus on common adjustments in the consumer market. This does not mean the adjustments are limited to usage in either B2B or B2C. We are just grouping them by their most common usage.

### Price Adjustments

Organizations must decide what their policies are when it comes to making price adjustments, or changing the listed prices of their products. Some common price adjustments include **quantity discounts**, which involves giving customers discounts for larger purchases. The terms need to specify if this required quantity can be purchased at one time or over a set period of time. **Cash discounts**, used to aid cash flow by speeding up payments, and **seasonal discounts** to get rid of inventory and holiday items are other examples of price adjustments.

A company's price adjustment policies also need to outline the firm's shipping charges. Many online merchants offer free shipping on certain products, orders over a certain amount, or purchases made in a given time frame. **FOB** (*free on board*) *origin* and *FOB delivered* are two common pricing adjustments businesses use to show when the title to a product changes along with who pays

the shipping charges. FOB (free on board) origin means the title changes at the origin—that is, when the product is purchased—and the buyer pays the shipping charges. FOB (free on board) destination means the title changes at the destination—that is, after the product is transported—and the seller pays the shipping charges.

**Uniform-delivered** pricing, also called postage-stamp pricing, means buyers pay the same shipping charges regardless of where they are located. If you mail a letter across town, the postage is the same as when you mail a letter to a different state.

**Trade discounts**, also called functional discounts, are payments to distribution channel members for performing some function. Examples of these functions are warehousing and shelf stocking. Trade discounts are often combined to include a series of functions, for example 20/12/5 could indicate a 20% discount for warehousing the product, an additional 12% discount for shipping the product, and an additional 5% discount for keeping the shelves stocked. Many times these discounts are split among channel members. If that is the case, the first discount listed goes to the last channel member. This progresses as the last discount listed goes to the first channel members. Trade discounts are most frequent in industries where retailers hold the majority of the power in the distribution channel. Trade discounts are given to try to increase the volume of sales being made by the supplier.

## 8.5 Pricing Strategies - B2C

Once a firm has established its pricing objectives and analyzed the factors that affect how it should price a product, the company must determine the pricing strategy (or strategies) that will help it achieve those objectives. As we have indicated, firms use different pricing strategies for their offerings. And oftentimes, the strategy depends on the stage of life cycle the offerings are in currently. Products may be in different stages of their life cycle in various international markets. Next, we'll examine three strategies businesses often consider when a product is first introduced and then look at several different pricing approaches that companies utilize during the product life cycle. While these are most common in B2C, they can be utilized in B2B markets as well.

### I. Introductory Pricing Strategies

When introducing a first-to-the-market product, a company has two main pricing options: price skimming or penetration pricing.

A **price skimming strategy** is when a company sets a high initial price for a product. The idea is to go after consumers who are willing to pay a high price (top of the market) and buy products early. This way, a company recoups its investment in the product faster.

The easy way to remember a skimming approach is to think of the turkey gravy at Thanksgiving. When the gravy is chilled, the fat rises to the top and is often “skimmed” off before serving. Price skimming is a pricing approach designed to skim that top part of the gravy, or the top of the market. Over time, the price of the product goes down as competitors enter the market and more consumers are willing to purchase the offering.

In contrast to a skimming approach, a **penetration pricing strategy** is one in which a low initial price is set. Often, many competitive products are already in the market. The goal is to get as much of the market as possible to try the product. Penetration pricing is used on many new food products, health and beauty supplies, and paper products sold in grocery stores and mass merchandise stores such as Walmart, Target, and Kmart.

Another approach companies use when they introduce a new product is **everyday low prices**. That is, the price initially set is the price the seller expects to charge throughout the product's existence. Companies like Walmart and Lowe's use everyday low pricing. Lowe's emphasizes their everyday low pricing strategy with the letters in their name plus the letter “t” (Lowest).

## Figure 8.5a



New flavors of snacks, candy, cereal, and shampoo sold in grocery stores and by mass merchandisers similar to the one in this picture are priced using a penetration pricing strategy to get consumers to try the products.

Rex Roof – Cereal Aisle – CC BY 2.0.

## II. Pricing Approaches

Many pricing approaches have a psychological appeal. **Odd-even pricing** occurs when a company prices a product a few cents or a few dollars below the next dollar amount. For example, instead of being priced \$10.00, a product will be priced at \$9.99. Likewise, a \$20,000 automobile might be priced at \$19,998, although the product will cost more once taxes and other fees are added. See Figure 8.5b for an example of odd-even pricing.

## Figure 8.5b



The charcoal shown in the photo is priced at \$5.99 a bag, which is an example of odd-even pricing, or pricing a product slightly below the next dollar amount.

Mike Mozart – Kingsford, Charcoal – CC BY 2.0.

**Prestige pricing** occurs when a higher price is utilized to give an offering a high-quality image. Some stores have a quality image, and people perceive that perhaps the products from those stores are of higher quality. Many times, two different stores carry the same product, but one store prices it higher because of the store's perceived higher image. Neckties are often priced using a strategy known as **price lining**, or *price levels*. In other words, there may be

only a few price levels (\$25, \$50, and \$75) for the ties, but a large assortment of them at each level. Movies and music often use price lining. You may see a lot of movies, recordings, and ebooks for \$15.99, \$9.99, and perhaps \$4.99, but you won't see a lot of different price levels.

**Leader pricing** involves pricing one or more items low to get people into a store. The products with low prices are often on the front page of store ads and “lead” the promotion. For example, prior to Thanksgiving, grocery stores advertise turkeys and cranberry sauce at very low prices. The goal is to get shoppers to buy many more items in addition to the low-priced items. Leader or low prices are legal; however, as you learned earlier, loss leaders, or items priced below cost in an effort to put competitors out of business, are illegal in many states. If the intent of pricing the product below cost is to drive store traffic, it is usually legal.

**Price bundling** occurs when different offerings are sold together at a price that's typically lower than the total price a customer would pay by buying each offering separately. Combo meals and value meals sold at restaurants are an example. Companies such as McDonald's have promoted value meals for a long time in many different markets. Other products such as shampoo and conditioner are sometimes bundled together. Automobile companies bundle product options. The idea behind bundling is to increase an organization's revenues.

**Captive pricing** is a strategy firms use when consumers must buy a given product because they are at a certain event or location or they need a particular product because no substitutes will work. Concessions at a sporting event or a movie provide examples of how captive pricing is used. Maybe you didn't pay much to attend the game, but the snacks and drinks were extremely expensive. Similarly, if you buy a razor and must purchase specific razor blades for it, you have experienced captive pricing. The blades are often more expensive than the razor because customers do not have the option of choosing blades from another manufacturer.

### III. You Try It!



*An interactive H5P element has been excluded from this version of the text. You can view it online here:*

<https://iu.pressbooks.pub/mktgwip/?p=244#h5p-18>



# CHAPTER 9: PLACE / DISTRIBUTION

## Learning Objectives

1. Explain why marketing channel decisions can result in the success or failure of products.
2. Describe the basic types of channels in business-to-consumer (B2C) and business-to-business (B2B) markets.
3. Describe the activities performed in channels.
4. Explain the marketing strategy as it applies to retailers

## Introduction

Today, marketing channel decisions are as important as the decisions companies make about the features and prices of products (Littleson, 2007). Consumers have become more demanding. They are used to getting what they want. If you can't get your product to them when, where, and how they want it, they will simply buy a competing product. In other words, *how* companies sell has become as important as *what* they sell<sup>1</sup>.

The firms a company partners with to actively promote and sell a product as it travels through its marketing channel to users are referred to by the firm as its channel members (or partners). Companies strive to choose not only the best marketing channels but also the best channel partners. A strong channel partner, like Walmart, can promote and sell the heck out of a product that might not otherwise turn a profit for its producer. In turn, Walmart wants

to work with strong channel partners it can depend on to continuously provide it with great products that fly off the shelves. By contrast, a weak channel partner can be a liability.

The simplest marketing channel consists of just two parties—a producer and a consumer. Your haircut is a good example. When you get a haircut, it travels straight from your hairdresser to you. No one else owns, handles, or remarkets the haircut to you before you get it. However, many other products and services pass through multiple organizations before they get to you. These organizations are called intermediaries (or *middlemen* or *resellers*).

Companies partner with intermediaries not because they necessarily want to (ideally they could sell their products straight to users) but because the intermediaries can help them sell the products better than they could working alone. In other words, they have some sort of capabilities the producer needs: contact with many customers or the right customers, marketing expertise, shipping and handling capabilities, and the ability to lend the producer credit are among the types of help a firm can get by utilizing a channel partner.

One important channel partner is retailers. Retailers are entities to sell to the end user for personal usage. Many organizations sell to businesses and consumers so how do we determine if they are considered a ‘retailer’? We look at their sales. If the majority of the sales dollars comes from consumer sales, the organization is classified as a retailer.

Over the last two decades, retailing has changed dramatically. Some have said that ‘retail is dead’. That is ridiculous. As long as purchases are made for personal usage, retailing will always be around. However, how retailers reach the consumer, what functions they perform, and how they compete has gone through many changes and is likely to continue to do so.

Littleton, R., “Supply Chain Trends: What’s In, What’s Out,” *Manufacturing.net*, February 6,

2007, <http://www.manufacturing.net/articles/2007/02/supply-chain-trends-whats-in-whats-out> (accessed April 13, 2012).



# 9.1 Purpose of Distribution Channels

Just as with the other elements of the firm's marketing program, distribution activities are undertaken to facilitate the exchange between marketers and consumers. There are two basic functions performed between the manufacturer and the ultimate consumer. The first, called the exchange function, involves sales of the product to the various members of the channel of distribution. The second, the physical distribution function, moves products through the exchange channel, simultaneously with title and ownership. Decisions concerning both of these sets of activities are made in conjunction with the firm's overall marketing plan and are designed so that the firm can best serve its customers in the marketplace. In actuality, without a channel of distribution the exchange process would be far more difficult and ineffective. The key role that distribution plays is satisfying a firm's customer and achieving a profit for the firm. From a distribution perspective, customer satisfaction involves maximizing time and place value to: the organization's suppliers, intermediate customers, and final customers. In short, organizations attempt to get their products to their customers in the most effective ways. Further, as households find their needs satisfied by an increased quantity and variety of goods, the mechanism of exchange—i.e. the channel—increases in importance.

## I. Terminology

**Marketing Channels vs. Distribution Channels:** Channels refers to all the organizations from the producer of the offering to the final

seller to the end user. These channels are officially called **marketing channels**. However, since many non-marketers think marketing is just about promotion, some people hear the term ‘marketing channels’ and associate it with methods of promotion. While that is not accurate, it is a common misconception. **Distribution channels** are marketing channels. Using the term distribution channel helps to avoid the confusion just discussed.

**Supply Chain vs. Distribution Channels:** In the past few decades, organizations have begun taking a more holistic look at their marketing channels. Instead of looking at only the firms that sell and promote their products, they have begun looking at *all* the organizations that figure into any part of the process of producing, promoting, and delivering an offering to its user. All these organizations are considered part of the offering’s supply chain. Firms are constantly monitoring their supply chains and tinkering with them so they’re as efficient as possible. This process is called supply chain management. Supply chain management is challenging. If done well, it’s practically an art.

**Intermediaries vs Channel Members or Partners:** Channel members (or partners) are all the organizations involved in getting an offering to the end user starting with the producer through the final seller. Intermediaries are channel partners between the producer and the end user. In other words, the producer is not included in the term ‘intermediary’.

## II. Channel Benefits / Functions

A properly managed channel provides many benefits to the end user and the other channel partners though it may not always be obvious. The most noticeable functions are:

## A. Sorting and Regrouping Products

Many businesses don't want to receive huge quantities of a product. One of the functions of wholesalers and distributors is to break down large quantities of products into smaller units and provide an assortment of different products to businesses. (This will be discussed in more detail later in this section)

For example, cranberry farmers have large crops to sell. You don't want to buy large amounts of cranberries, make your own juice or cranberry sauce, or dry them into raisins for salads. So the farmers sell their produce to a co-op, which sorts the berries by size; large ones become raisins while others are destined to become either juice or sauce, depending on their liquid content. Those are then sold to the juice and sauce producers.

### Storing and Managing Inventory

If a channel member has run out of a product when a customer wants to buy it, the result is often a lost sale. That's why most channel members stock, or "carry," reserve inventory. However, storing products is not free. Warehouses cost money to build or rent and heat and cool; employees have to be paid to stock shelves, pick products, ship them, and so forth. Some companies, including Walmart, put their suppliers in charge of their inventory. The suppliers have access to Walmart's inventory levels and ship products when and where the retailer's stores need them.

Storing and managing inventory is not just a function provided for retailers, though. Storage also involves storing commodities like grain prior to processing. Gigantic grain elevators store corn, wheat, and other grains until processors, like Oroweat, need them. You can

buy fresh bread in your grocer every day because the wheat was stored first at a grain elevator until it was needed.

## Distributing Products

Physical goods that travel within a channel need to be moved from one member to another and sometimes back again. Some large wholesalers, distributors, and retailers own their own fleets of trucks for this purpose. In other cases, they hire third-party transportation providers—trucking companies, railroads, and so forth—to move their products.

Figure 9.1a



Walmart doesn't just own its own warehouses. It also owns its own fleet of semi-trucks.

Walmart – Walmart's Hybrid Assist Trucks – CC BY 2.0.

Being able to track merchandise like you can track a FedEx package is extremely important to channel partners. They want to know where their products are at all times and what shape they are in. Losing inventory or having it damaged or spoiled can wreak havoc on a company's profits. So can not getting products on time or being able to get them at all when your competitors can.

## Assume Ownership Risk and Extend Credit

If products *are* damaged during transit, one of the first questions asked is who owned the product at the time. In other words, who suffers the loss? Generally, no one channel member assumes all of

the ownership risk in a channel. Instead, it is distributed among channel members depending on the contracts they have with one another and their free on board provisions. A free on board (FOB) provision designates who is responsible for what shipping costs and who owns the title to the goods and when. However, the type of product, the demand for it, marketing conditions, and the clout of the various organizations in its marketing channel can affect the contract terms channel members are willing to agree to. Some companies try to wait as long as possible to take ownership of products so they don't have to store them. During the economic downturn, many channel members tried to hold as little inventory as possible for fear it would go unsold or become obsolete (Jorgensen, 2009).

## Share Marketing and Other Information

Each of the channel members has information about the demand for products, trends, inventory levels, and what the competition is doing. The information is valuable and can be doubly valuable if channel partners trust one another and share it. More information can help each firm in the marketing channel perform its functions better and overcome competitive obstacles (Grazier, et. al., 2009).

That said, confidentiality is a huge issue among supply chain partners because they share so much information with one another, such as sales and inventory data. For example, a salesperson who sells Tide laundry detergent for Procter & Gamble will have a good idea of how many units of Tide Walmart and Target are selling. However, it would be unethical for the salesperson to share Walmart's numbers with Target or Target's numbers with Walmart. Many business buyers require their channel partners to sign nondisclosure agreements or make the agreements part of purchasing contracts. A nondisclosure agreement (NDA) is a contract that specifies what information is proprietary, or owned by the partner, and how, if at all, the partner can use that information.

## Results of Providing These Functions

**Alleviating Discrepancies** – Ensuring that channel partners, and ultimately the end user, have the quantity and assortment they desire, is paramount to the channel, as discussed earlier in this section. Thus, channel partners will address these areas by **accumulating** from multiple producers to have the larger quantity desired by the buyer, or they can provide **bulk breaking** services by taking the large quantity produced and breaking it into smaller amounts as desired by the buyer.

In addition to addressing the need for quantity adjustments, channel partners can aid in providing the desired assortment. They can **sort** through a range of product offerings to find the ones most desirous to the target market and only offer those products. In addition, the channel partner can provide **assorting** by getting products from multiple producers so there are more choices available to the buyer.

**Providing Cost Efficiencies** – If the functions discussed in this section are performed effectively, the result can be a decrease in the price charged to the end user. This is counter-intuitive. We assume since more organizations are involved in the process, that will result in higher prices. In actuality, because of the efficiencies created through specialization of labor, costs are contained thus allowing for lower prices.

## III. You Try It!

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<https://iu.pressbooks.pub/mktgwip/?p=303#h5p-19>

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- Jorgensen, B., "Distributors' Services Help Keep Customers Afloat," *EDN* 54, no. 8 (April 23, 2009): 60.

## 9.2 Channel Types

With such a variety of products, services, and target markets that exist in the world economy, there is no such thing as a ‘one size fits all’ approach to channel management. In this section and the following, we will look at how to design a channel. This section begins by examining channel structure options and types.

### I. Consumer Channels compared to B2B Channels

Figure 9.2a “Typical Channels in Business-to-Consumer (B2C) Markets” shows the typical channels in business-to-consumer (B2C) markets. As we explained, the shortest marketing channel consists of just two parties—a producer and a consumer. A channel such as this is called a **direct channel**. By contrast, a channel that includes one or more intermediaries—say, a wholesaler, distributor, or broker or agent—is an **indirect channel**. In an indirect channel, the product passes through one or more intermediaries. That doesn’t mean the producer will do no marketing directly to consumers. Levi’s runs ads on TV designed to appeal directly to consumers. The makers of food products run coupon ads. However, the seller also has to focus its selling efforts on these intermediaries because the intermediary can help with the selling effort. Not everyone wants to buy Levi’s online.

## Figure 9.2a Typical Channels in Business-to-Consumer (B2C) Markets

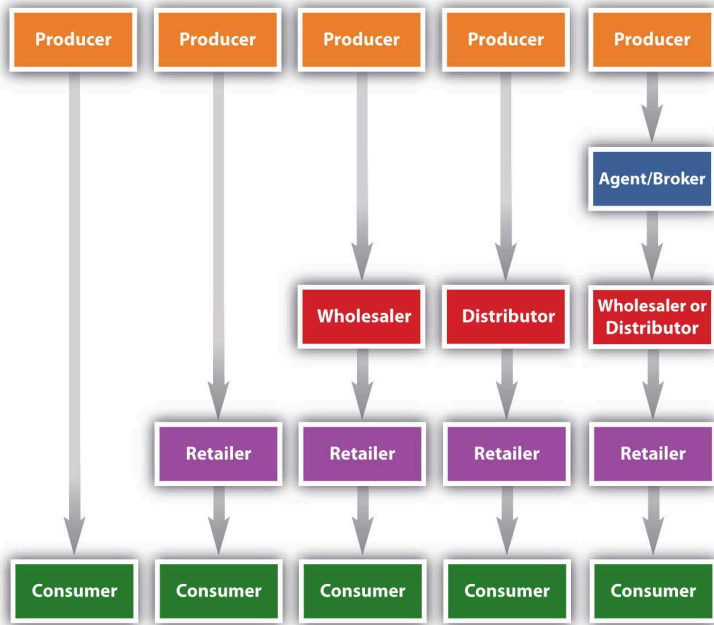
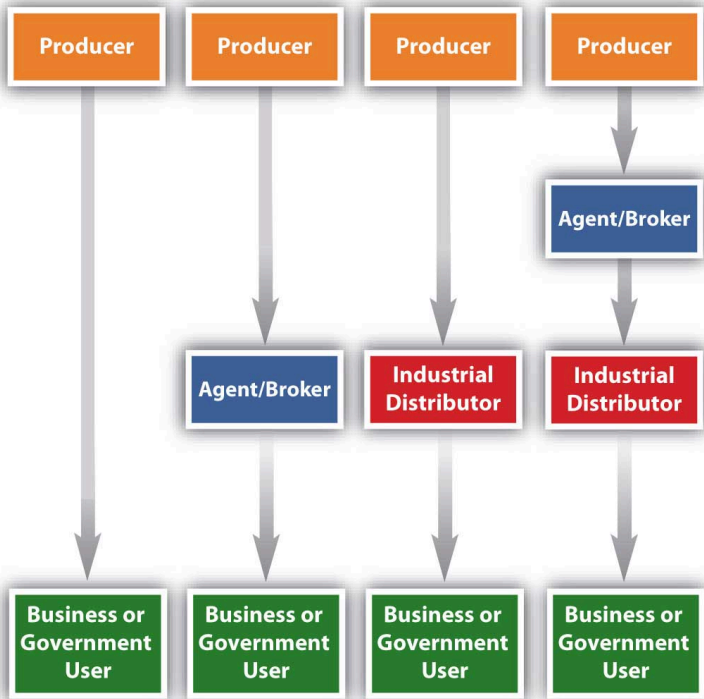


Figure 9.2b “Typical Channels in Business-to-Business (B2B) Markets” shows the marketing channels common in business-to-business (B2B) markets. Notice how the channels resemble those in B2C markets, except that the products are sold to businesses and governments instead of consumers like you.

Figure 8.2b Typical Channels in Business-to-Business (B2B) Markets



## II. Direct Channels

Direct channels occur when the producer of the product sells and distributes directly to the end user of the product. Direct channels are seen in both B2B and B2C situations. Services are a common example of a direct channel. If a business, or a consumer, hires someone to prepare their taxes, that is a direct channel as the provider of the service deals directly with the end user. In terms of tangible goods, direct channels are more common in B2B situations as the buyers wish to negotiate, buy large quantities, and have special demands. There are inefficiencies at times, as the producer has to perform all the functions that intermediaries might have performed.

## III. Indirect Channels

By contrast, an indirect marketing channel is a channel that has intermediaries.

Most indirect channels can be classified as a **conventional marketing system** in which the channel members have no affiliation with one another. All the members operate independently. If the sale or the purchase of a product seems like a good deal at the time, an organization pursues it. But there is no expectation among the channel members that they *have* to work with one another in the future.

If the indirect channel is not a conventional marketing system, then it is considered to be a vertical marketing system.

## IV. Vertical Marketing Systems (VMS)

Another way to foster cooperation in a channel is to establish a vertical marketing system. In a **vertical marketing system**, channel members coordinate activities and planning with one another. They do this to maximize efficiencies and to establish long-term working relationships, thus eliminating the time and cost of searching for new channel members.

There are three main types of VMSs: corporate VMS, administered VMS, and contractual VMS.

A **corporate VMS** occurs when channel members are owned by one channel member or a parent company. Occasionally, this occurs through a form of disintermediation (decreasing the number of intermediaries) known as vertical integration, where one channel member takes over the functions of another member.

An **administered VMS** is difficult to identify from the outsider's view. Technically, this arrangement is a conventional channel but the members have informal agreements to foster a long-term relationship. They will share planning, forecasting, strategy and inventory information regularly to coordinate the activities effectively. This shared decision making is a key aspect of an administered VMS.

Franchises are another type of vertical marketing system, called a **contractual VMS**. They are used not only to lessen channel conflicts but also to penetrate markets. Recall that a franchise gives a person or group the right to market a company's goods or services within a certain territory or location. McDonald's sells meat, bread, ice cream, and other products to its franchises, along with the right to own and operate the stores. And each of the owners of the stores signs a contract with McDonald's agreeing to do business in a certain way.

## V. Conclusion

As we look at these different types of channel, it is important to note that there are many versions and hybrids of these structures. Many organizations will use multiple channels including direct, franchises and a conventional channel to reach their intended target market. The structures discussed here are the basic foundations. Creativity is encouraged in the formation of the structure as long as efficiencies are provided and needs are met. This will be discussed in more specific detail in the next section.

## 9.3 Channel Design

Deciding which channel members to use, how many to use, which functions they should provide, and the type of agreement the channel organizations should have is a difficult decision that may have long term consequences. This last section on marketing channels covers some of the channel design factors that need to be considered.

### I. Buyer Requirements

The Internet isn't necessarily the best channel for every product, though everyone tends to want to jump to that alternative. For example, do you want to closely examine the fruits and vegetables you buy to make sure they are ripe enough or not overripe? Then online grocery shopping might not be for you. Clearly, how your customers want to buy products will have an impact on the channel you select. In fact, it should be your prime consideration.

First of all, are you selling to a consumer or a business customer? Generally, these two groups want to be sold to differently. Most consumers are willing to go to a grocery or convenience store to purchase toilet paper. The manager of a hospital trying to replenish its supplies would not. The hospital manager would also be buying a lot more toilet paper than an individual consumer and would expect to be called upon by a distributor, but perhaps only semi-regularly. Thereafter, the manager might want the toilet paper delivered on a regular basis and billed to the hospital via automatic systems. Likewise, when businesses buy expensive products such as machinery and computers or products that have to be customized, they generally expect to be sold to personally via salespeople. And often they expect special payment terms.

Because of these differences, B2B channels tend to be shorter than B2C channels. ‘Shorter’ means that the channel has less levels.

## A. Which channel member should be chosen?

We discussed the functions channel members perform for the channel. But, they perform functions for the buyer as well. For example, if the consumer of our product is buying a refrigerator, they may want assistance in choosing the proper model for their needs. In addition, it is likely they will want a payment plan option, delivery, installation, and removal of the old refrigerator. The manufacturer typically does not perform these functions; the retailer does. Other things that buyers may ask for different products include gift wrapping, registry services, and rental arrangements, just to name a few. Understanding the needs of the buyer will help to determine which channel members to choose as they have to be able to provide those functions.

The brand name of the retailer is also important to the manufacturer. Choosing a retailer who has the same image, reputation, and target market as the manufacturer is vital to ensuring a consistent message is sent and the strategies of the channel members will complement each other.

## B. Number of locations / purchase opportunities

Firms that choose an **intensive distribution** strategy try to sell their products in as many outlets as possible. Intensive distribution strategies are often used for convenience offerings—products customers purchase on the spot without much shopping around. Soft drinks and candy bars are an example. You see them sold in all kinds of different places.

By contrast, **selective distribution** involves selling products at select outlets in specific locations. For instance, Sony TVs can be purchased at a number of outlets such as Best Buy, or Walmart, but the same models are generally not sold at all the outlets. The lowest-priced Sony TVs are at Walmart, the better Sony models are more expensive and found in specialty electronics stores. By selling different models with different features and price points at different outlets, a manufacturer can appeal to different target markets. You don't expect, for example, to find the highest-priced products in Walmart; when you shop there, you are looking for the lower-priced goods.

**Exclusive distribution** involves selling products through one or very few outlets. Most students often think exclusive means high priced, but that's not always the case. Exclusive simply means limiting distribution to only one outlet in any area, and can be a strategic decision based on applying the scarcity principle to creating demand. For instance, supermodel Cindy Crawford's line of furniture is sold exclusively at the furniture company Rooms To Go. Designer Michael Graves has a line of products sold exclusively at Target. To purchase those items you need to go to one of those retailers. In these instances, retailers are teaming up with these brands in order to create a sense of quality based on scarcity, a sense of quality that will not only apply to the brand but to the store.

To control the image of their products and the prices at which they are sold, the makers of upscale products often prefer to distribute their products more exclusively. Expensive perfumes and designer purses are an example. During the economic downturn, the makers of some of these products were disappointed to see retailers had slashed the products' prices, "cheapening" their prestigious brands.

Even though we have discussed these strategies as for selling in physical locations (brick and mortar stores), they apply to online shopping as well. How many sites will offer the product? Which type? Which specific site? Will we use an online retailer like Amazon or sell directly through our own exclusive site. Whether using brick

and mortar locations, online, or a combination, it is important to recognize that the choice to distribute intensively, selectively, or exclusively is a strategic decision based on many factors such as the nature of the brand, the types and number of competitors, and the availability of retail choices.

## II. Channel Member Requirements

When choosing channel members, an analysis of potential partners' strengths and weaknesses should be considered. Every organization has weaknesses but we don't want everyone in the channel to have the same ones! The goal is to complement each other so one partner's weakness is another's strengths.

The potential channel members may have very different profit requirements as well. This will impact the final price that will be charged to the end user. Each channel member needs to be able to achieve their required profit margin and still have the final price to the end user be competitive and a price the ultimate customer is willing to pay.

## III. Product Requirements

The type of product being sold will also affect the marketing channel choices. Perishable products often have to be sold through shorter marketing channels than products with longer shelf lives. For example, a yellowfin tuna bound for the sushi market will likely be flown overnight to its destination and handled by few intermediaries. By contrast, canned tuna can be shipped by "slow boat" and handled by more intermediaries. Valuable and fragile products also tend to have shorter marketing channels. Automakers

generally sell their cars straight to car dealers (retailers) rather than through wholesalers. The makers of corporate jets often sell them straight to corporations, which demand they be customized to certain specifications.

## IV. Areas of Concern

### A. Channel Power

Strong channel partners often wield what's called channel power and are referred to as channel leaders, or *channel captains*. In the past, big manufacturers like Procter & Gamble and Dell were often channel captains. But that is changing. More often today, big retailers like Walmart and Target are commanding more channel power. They have millions of customers and are bombarded with products wholesalers and manufacturers want them to sell. As a result, these retailers increasingly are able to call the shots. In other words, they get what they want.

This power can come from a number of sources such as economic position, expertise, reputation, and short-term contractual arrangements. Most conventional channels have a fairly even disbursement of power but some channels will have one member that holds all the cards, so to speak, and can dictate channel decisions.

### B. Channel Conflict

A dispute among channel members is called a channel conflict. Channel conflicts are common. Part of the reason for this is that each channel member has its own goals, which are unlike those of any other channel member. The relationship among them is not unlike the relationship between you and your boss (assuming you have a job). Both of you want to serve your organization's customers well. However, your goals are different. Your boss might want you to work on the weekend, but you might not want to because you need to study for a Monday test.

All channel members want to have low inventory levels but immediate access to more products. Who should bear the cost of holding the inventory? What if consumers don't purchase the products? Can they be returned to other channel members, or is the organization in possession of the products responsible for disposing of them? Channel members try to spell out details such as these in their contracts.

No matter how "airtight" their contracts are, there will still be points of contention among channel members. Channel members are constantly asking their partners, "What have you done (or not done) for me lately?" Wholesalers and retailers frequently lament that the manufacturers they work with aren't doing more to promote their products—for example, distributing coupons for them, running TV ads, and so forth—so they will move off store shelves more quickly. Meanwhile, manufacturers want to know why wholesalers aren't selling their products faster and why retailers are placing them at the bottom of shelves where they are hard to see. Apple opened its own retail stores around the country, in part because it didn't like how its products were being displayed and sold in other companies' stores.

Channel conflicts can also occur when manufacturers sell their products online. When they do, wholesalers and retailers often feel like they are competing for the same customers when they shouldn't have to. Likewise, manufacturers often feel slighted when retailers dedicate more shelf space to their own store brands. Store brands are products retailers produce themselves or pay

manufacturers to produce for them. Dr. Thunder is Walmart's store-brand equivalent of Dr. Pepper, for example. Because a retailer doesn't have to promote its store brands to get them on its own shelves like a "regular" manufacturer would, store brands are often priced more cheaply. And some retailers sell their store brands to other retailers, creating competition for manufacturers.

## C. Legal Requirements

Lastly, you don't want to risk breaking the law or engage in unfair business practices when dealing with your channel partners. An issue channel partners sometimes encounter relates to resale price maintenance agreements. A **resale price maintenance agreement** is an agreement whereby a producer of a product restricts the price a retailer can charge for it.

The producers of upscale products often want retailers to sign resale price maintenance agreements because they don't want the retailers to deeply discount their products. Doing so would "cheapen" their brands, producers believe. Producers also contend that resale price maintenance agreements prevent price wars from breaking out among their retailers, which can lead to the deterioration of prices for all of a channel's members.

Both large companies and small retail outlets have found themselves in court as a result of price maintenance agreements. Although the U.S. Supreme Court hasn't ruled that all price maintenance agreements are illegal, some states have outlawed them on the grounds that they stifle competition. In some countries, such as the United Kingdom, they are banned altogether. The safest bet for a manufacturer is to provide a "suggested retail price" to its channel partners.

## V. You Try It



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<https://iu.pressbooks.pub/mktgwip/?p=307#h5p-20>

## 9.4 Introduction to Retailing

Retailers buy products from wholesalers, agents, or distributors and then sell them to consumers. Retailers vary by the types of products they sell, their sizes, the prices they charge, the level of service they provide consumers, and the convenience or speed they offer. You are familiar with many of these types of retailers because you have purchased products from them. It is common to hear Nike and Apple mentioned as examples of companies that make and sell products directly to consumers, but in reality, Nike and Apple contract manufacturing to other companies. They may design the products, but they actually buy the finished goods from others.

### I. Role of Retailing

Retailing is not only an important part of our economy but it is a social and entertainment provider as well. This makes retailing a unique entity. In terms of the economy, “Retail sales are an important economic indicator because consumer spending drives much of our economy. Think of all of the people and companies involved in producing, distributing, and selling the goods you use on a daily basis like food, clothes, fuel, and so on.” (Little, 2021). In addition, many consumers like to browse online or window shop brick and mortar stores as an act of entertainment, then sharing and discussing via social media platforms. This intricate involvement with consumers beyond sheer practicality, is what makes retailing a fascinating area of study.

In this section, a brief look at the various types of retailers will be undertaken. In the following section, a discussion of how the marketing mix applies to retail strategy will occur.

## II. Types and Terminology

**Supermarkets**, or **grocery stores**, are self-service retailers that provide a full range of food products to consumers, as well as some household products. Supermarkets can be high, medium, or low range in terms of the prices they charge and the service and variety of products they offer. Whole Foods and Central Market are grocers that offer a wide variety of products, generally at higher prices. Drugstores specialize in selling over-the-counter medications, prescriptions, and health and beauty products and offer services such as photo developing.

**Convenience stores** are miniature supermarkets. Many of them sell gasoline and are open twenty-four hours a day. Often they are located on corners, making it easy and fast for consumers to get in and out. In Europe, as well as in rural parts of the United States, you'll find convenience stores that offer fresh meat and produce.

**Specialty stores** sell a certain type of product, but they usually carry a deep line of it. Zales, which sells jewelry, and Williams-Sonoma, which sells an array of kitchen and cooking-related products, are examples of specialty stores. The personnel who work in specialty stores are usually knowledgeable and often provide customers with a high level of service.

**Department stores**, by contrast, carry a wide variety of household and personal types of merchandise such as clothing and jewelry. Many are chain stores. The prices department stores charge range widely, as does the level of service shoppers receive. Neiman Marcus, Saks Fifth Avenue, and Nordstrom sell expensive products and offer extensive personal service to customers.

**Superstores** are oversized department stores that carry a broad array of general merchandise as well as groceries. Banks, hair and nail salons, and restaurants such as Starbucks are often located within these stores for the convenience of shoppers. You have probably shopped at a SuperTarget or a huge Walmart with

offerings such as these. Superstores are also referred to as *hypermarkets* and *supercenters*.

**Warehouse clubs** are supercenters that sell products at a discount. They require people who shop with them to become members by paying an annual fee. Costco and Sam's Club are examples. Off-price retailers are stores that sell a variety of discount merchandise that consists of seconds, overruns, and the previous season's stock other stores have liquidated. Big Lots, Ross Dress for Less, and dollar stores are off-price retailers.

**Outlet stores** were a new phenomenon at the end of the last century. These were discount retailers that operated under the brand name of a single manufacturer, selling products that couldn't be sold through normal retail channels due to mistakes made in manufacturing. Often located in rural areas but along interstate highways, these stores had lower overhead than similar stores in big cities due to lower rent and lower employee salaries. But due to the high popularity of the stores, demand far outstripped the supply of mistakes. Most outlet malls are now selling first-quality products only, perhaps at a discount.

**Online retailers** can fit into any of the previous categories; indeed, most traditional stores also have an online version. More on online retailing will be found below and in the next section.

**Used retailers** are retailers that sell used products. Online versions, like eBay and Craigslist, sell everything from used airplanes to clothing. Traditional stores with a physical presence that sell used products include Half-Priced Books and clothing consignment or furniture stores like Amelia's Attic. Note that in consignment stores, the stores do not take title to the products but only retail them for the seller. This industry has grown as the online environment has created more opportunity for individual consumers to sell their products online through established marketplaces.

A new type of retail store that turned up in the last decade is the **pop-up store**. Pop-up stores are small temporary stores. They can be kiosks or temporarily occupy unused retail space. The goal

is to create excitement and “buzz” for a retailer that then drives customers to their regular stores. Most commonly, pop-up stores are used for seasonal sales, such as a costume store before Halloween or the Hillshire Farms sausage and cheese shops you see at the mall just before Christmas.

Not all retailing goes on in stores, however. **Nonstore retailing**—retailing not conducted in stores—is a growing trend. Online retailing; party selling; selling to consumers via television, catalogs, and vending machines; and telemarketing are examples of nonstore retailing. These are forms of direct marketing. Companies that engage in direct marketing communicate with consumers urging them to contact their firms directly to buy products.

#### References:

Little, Ken. “Why Retail Sales are Important”, the balance, June 26, 2021; <https://www.thebalance.com/why-retail-sales-are-important-3141223>

## 9.5 Retailing Strategy

Marketing strategy is what differentiates competitors and competitive products for the target market. It helps to create awareness and loyalty. Also, the strategy can help to achieve customer satisfaction thus resulting in customer retention. It is necessary, therefore, to carefully consider the message we want to send to the target market as we develop the strategy..

### I. The Marketing Mix

#### Product

Retailers want to ensure they are carrying product from the manufacturers that their target market desire. However, depending on the store, this may be trickier than it sounds. If a store is selling its own brand of a product (store brand) in addition to manufacturers' brands, there could be a conflict of interest within the channel. Where should the retailer place their loyalty? to promoting its own brand or the manufacturer's brands that bring in customers?

We also see that certain products sell better online while some still sell mostly in person. This is, in part, tied to generational preferences and will likely go through cyclical changes.

#### Price

Online retailing has increased price comparison among consumers.

It is very easy to view multiple sites in just a couple minutes. If the consumer has to go to brick and mortar store to do the comparison, they will be limited due to the time and energy involved in visiting multiple stores. So if a product is sold online, price competition becomes more important. If a product is sold in a brick and mortar store, there is more flexibility in the pricing strategy depending on the ease of substitution and the other services or experiences the retailer provides.

## Promotion

Technology is allowing for more promotional opportunities, especially for brick and mortar retailers. They have the option of e-promotions, in-store promotions, and iBeacons to name a few. Online retailers are primarily limited to e-promotions as that is the only way to currently connect with the customer.

## Place (Distribution)

There is an old saying that three most important thing in real estate are location, location, and location. For brick and mortar stores, this is very true. While a bad location can be overcome, it is very difficult. Consumers want convenience, ease of parking, accessibility to complementary stores, to name a few. A great location can help a mediocre retailer survive.

However, this adage is still true for online retailers as well in two different contexts. How easy is it to get to the site / app? If the site/app is not user-friendly, inconvenient to scroll, or not mobile friendly, the customer will go to another site. It can also impact the number of websites / apps that carry the product which does help with convenience but can detract from the desired image.

## V. Omni-Channel

Most retailers today employ an omni-channel strategy. **Omni-channel** means multiple channels are being used to reach the target market. This combination of online and brick and mortar options has several benefits including convenience, addressing the needs of the customer, gaining more data on customer behavior, and growth opportunities. The covid-19 pandemic has pushed more people to buy more product categories online than ever before. Time will tell if that movement and preference will continue or, like a pendulum, swing back – partially – to a preference for the in-person shopping experience.



# CHAPTER 10: PROMOTION

## Learning Objectives

1. Understand what integrated marketing communications (IMC) are.
2. Understand why organizations may change their promotional strategies to reach different audiences.

## Introduction

Promotion is one of the primary elements used in the marketing mix. Thus, promotional efforts should work in harmony with product marketing, pricing, and distribution actions that target prospects and customers. The main purpose of any promotion is communication: what message are we trying to convey to the target audience?

When assembling a promotional plan, marketers typically employ one or more of the following four promotional subcategories: sales promotion, publicity (or public relations ), personal selling, and advertising.

These communication tools serve as tactics within the promotional plan to accomplish objectives such as:

- Increasing sales
- Launching new products
- Creating and building brand equity
- Establishing market positioning
- Retaliating against competition

- Strengthening brand image

As organizations implement their promotional plan, they also seek to educate consumers, increase consumer demand, and differentiate their products and services in the marketplace.

This chapter of the text will start with an explanation of IMC (integrated marketing communications) which is how to most effectively and efficiently communicate with the target market, followed by an examination of the components of the promotional mix.

# 10.1 Integrated Marketing Communications (IMC)

## I. Introduction

Integrated marketing communications (IMC) is an approach used by organizations to brand and coordinate their communication efforts. The American Association of Advertising Agencies defines IMC as “a comprehensive plan that evaluates the strategic roles of a variety of communication disciplines and combines these disciplines to provide clarity, consistency and maximum communication impact.” The primary idea behind an IMC strategy is to create a seamless experience for consumers across different aspects of the marketing mix. The brand’s core image and messaging are reinforced as each marketing communication channel works together as parts of a unified whole rather than in isolation.

### The Shift from Fragmented to Integrated Marketing Communications

Prior to the emergence of integrated marketing communications during the 1990s, mass

communications—the practice of relaying information to large segments of the population through television, radio, and other



**Promotional Tools:** IMC unifies promotional tools across all marketing communication channels.

media—dominated marketing. Marketing was a one-way feed. Advertisers broadcasted their offerings and value propositions with little regard for the diverse needs, tastes, and values of consumers.

Often, this “one size fits all” approach was costly and uninformative due to the lack of tools for measuring results in terms of sales. But as methods for collecting and analyzing consumer data through single-source technology such as store scanners improved, marketers were increasingly able to correlate promotional activities with consumer purchasing patterns. Companies also began to downsize their operations and expand marketing tasks within their organizations. Advertising agencies were also expected to understand and provide all marketing functions, not just advertising, for their clients.

Today, corporate marketing budgets are allocated toward trade promotions, consumer promotions, branding, public relations, and advertising. The allocation of communication budgets away from mass media and traditional advertising has raised the importance of IMC importance for effective marketing. Now, marketing is viewed more as a two-way conversation between marketers and consumers. This transition in the advertising and media industries can be summarized by the following market trends:

- a shift from mass media advertising to multiple forms of communication
- the growing popularity of more specialized (niche) media, which considers individualized patterns of consumption and increased segmentation of consumer tastes and preferences
- the move from a manufacturer-dominated market to a retailer-dominated, consumer-controlled market
- the growing use of data-based marketing as opposed to general-focus advertising and marketing
- greater business accountability, particularly in advertising
- performance-based compensation within organizations, which helps increase sales and benefits in companies
- unlimited Internet access and greater online availability of

- goods and services
- a larger focus on developing marketing communications activities that produce value for target audiences while increasing benefits and reducing costs

## The Tools of Integrated Marketing Communications

The IMC process generally begins with an integrated marketing communications plan that describes the different types of marketing, advertising, and sales tools that will be used during campaigns. These are largely promotional tools, which include everything from search engine optimization (SEO) tactics and banner advertisements to webinars and blogs. Traditional marketing communication elements such as newspapers, billboards, and magazines may also be used to inform and persuade consumers. Marketers must also decide on the appropriate combination of traditional and digital communications for their target audience to build a strong brand-consumer relationship. Regardless of the brand's promotional mix, it is important that marketers ensure their messaging is consistent and credible across all communication channels.

## II. Communication Process

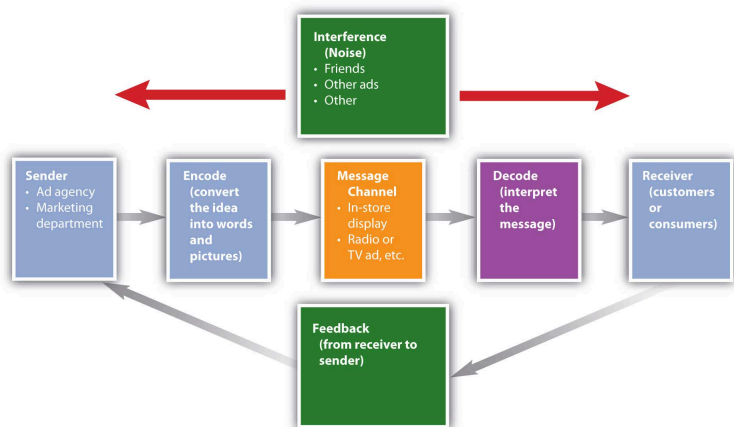
Think about what else you are doing when you watch television, when you are studying, or when you are listening to the radio. It's a hot day in July and you're enjoying a day at the beach. Your friends brought a radio and the volume is turned up so you can hear all the music. If you're listening to the music or talking to a friend at

the beach while you're listening to the radio, do you hear or pay attention to the commercials? But if you were using a streaming service, then there are no commercials so this doesn't resonate with you, correct? Wrong. All streaming services still have ads but many times the advertisements are limited to promoting events on the streaming service or partner services. But still, there are flyers posted, billboards passed, in-game advertisements in video games. Do you remember which products were advertised? If you're with a friend and hear someone else say your name, do you pay more attention to the person talking about you than to your friend?

With so many different types of distractions and technology (such as recording devices), imagine how difficult it is for an advertiser to get you to pay attention much less remember the message. Do you remember the terms you memorized for a test a day later? Do you know your friends' phone numbers and e-mail addresses or do you just find their names on your contact list? To increase retention, advertisers may repeat the same message multiple times in different places, but they must be careful that consumers don't get so tired of the message that there is a negative effect.

The communication process illustrates how messages are sent and received, as shown in Figure 10.1 "The Communication Process". The source (or sender) encodes, or translates, a message so that it's appropriate for the message channel—say, for a print advertisement, TV commercial, or store display—and shows the benefits and value of the offering. The receiver (customer or consumer) then decodes, or interprets, the message. For effective communication to occur, the receiver must interpret the message as the sender intended.

Figure 10.1 The Communication Process



## Message Problems

You're ready to go home on a Friday afternoon and you hear someone mention an upcoming event on Saturday. However, you did not listen to all the details and assume the event is the next day, not the following Saturday. Since you already made other plans for the next day, you don't even consider showing up the following Saturday. Has this ever happened to you? You don't show up at an event because you didn't interpret the message correctly? If you do not hear someone correctly, misread information, or misinterpret a message, you might think a product or service provides different benefits or is easier or harder to use than it really is.

Interference, or noise, can distort marketing messages. Factors such as poor reception, poor print quality, problems with a server, or a low battery can interfere with your getting messages.

Interference includes any distractions receivers and senders face during the transmission of a message. For example, when you were growing up did you see commercials for toys such as the pogo ball, which appeared to be so easy to use but when you tried to jump up and down on it, you found out it was extremely difficult? The same thing may happen if you're studying for an exam while you're talking on the phone. The conversation interferes with remembering what you're reading. If a friend tells you a story, then you tell another friend, and that person tells someone else, will the message be the same after it is relayed to multiple people? If you miss class and borrow someone else's notes, do you understand what they mean? Not only must advertisers try to present consistent messages (IMC), they must also try to ensure that you interpret the message as they intended.

Purchasing a product provides the sender with feedback, which often tells the seller that you saw information and wanted to try the product. If you use any coupons or promotions when you buy a product, the advertiser knows which vehicle you used to get the information. Market research and warranty registration also provide feedback.

We tend to purchase products and remember information that has some relevance to our personal situation or beliefs. If you have no need for a product or service, you might not pay attention to or remember the messages used to market it. Advertisers also want you to remember their brands so that you'll think of their products/services when you need to make a purchase.

### III. Elements of the Promotional Mix

IMC strategy involves integration of the four elements of the promotional mix. You are introduced to each of the four elements below followed by more thorough discussion later in this chapter.

## Public Relations

Public relations is the management of a message between an individual or organization and the public. It is communicated through the media in the form of publicity events, speaking opportunities, press releases including video and audio news releases, newsletters, blogs, social media, press kits, and outbound communication to members of the press. The media is not paid to publish the information.

## Sales Promotion

Sales Promotion stimulates market demand, product availability and coordinates public selling, advertising and public relations.

The primary objective of a sales promotion, a catch all marketing function, is to stimulate market demand, improve product availability and to coordinate public selling, advertising and public relations. A successful sales promotion is meant to prompt a targeted consumer group to show interest in the product or service, try it or ideally buy it. They are delivered to targeted groups via media and non-media marketing communications during a pre-determined, limited amount of time. Sales promotion cannot compensate for a poor product, a declining sales trend, ineffective advertising nor can it create strong brand loyalty.

Sales promotions tend to be short-term in nature in order to be most effective.

## Personal Selling

Selling, the art of persuasion, is defined as a one-on-one interaction whereby a tangible or intangible item of value is exchanged for a

different item, usually with money in an amount of equal or greater value of the item being sold. Selling is part of the promotional mix. It is systematic, repetitive, and measurable. When properly analyzed, sales data will offer objections to overcome and help to predict sales patterns and projections.

## Advertising

When a company pays to have a message that defines its goods or services delivered or communicated to as many people as possible, they are said to be advertising. Effective advertising illustrates the product's value and gives consumers a reason to take action and/or buy.

Through advertising, a marketer hopes to communicate a message to a targeted consumer group via means including print, electronic (radio and television), the Internet and mobile phones. Advertising generates feedback that is analyzed and measured. Good feedback typically translates into money spent on the product while bad feedback prompts the marketing source to reevaluate its marketing plan.

## Summary

To effectively communicate with the target market, IMC should be carefully planned and implementation. The implementation involves using the four components of the promotional mix: public relations, sales promotions, personal selling, and advertising. Determining how many of these elements should be used, which

specific ones should be used, and to what degree, will be discussed in the next section.

## 10.2 Designing the IMC Strategy

With so many promotional options available, choosing the ones that are most likely to result in an effective IMC strategy can be very daunting. In this section, we will discuss some of the factors considered when deciding the 'best' promotional options for our situation. There are no 'right' or 'wrong' choices but proper research, and experience, will help the decision maker to decide on the best promotional avenues to pursue.

### I. Factors Impacting the IMC Strategy

#### Budget

Determining a promotional budget can be accomplished using a variety of methods. The ones discussed here are Objective and Task, Percent of Sales, and Competition Matching. Some smaller businesses may choose to not have a budget and rather spend money on promotions based on situational influences as well as available funding. While short-term objectives might be achieved, this is not recommended for long-term efficiency or effectiveness.

The **objective and task** budgeting method is more time consuming and involves more research than the other methods. However it results in more effective spending as money is invested into achieving specific goals. With this method, each objective is listed in order of priority. Then, based on experience and research, the strategies needed to achieve each objective is listed and priced out. When this has been done for all objectives, the cost of all the

tasks are totalled and compared to available funding. If, as is very common, there is not enough funds to cover the desired activities, objectives and their accompanying tasks, can be dropped from the bottom. This method allows for more accountability and ensures the money is being spent on the most important objectives.

The **percentage of sales** method is very common and easy to use. However, there is a risk associated with it as well. As the name implies, for this budgeting method, a percentage of sales is put into a promotional budget to fund future activities. The risk with this method is that if sales are low, the promotional budget will be small which is when you probably need to spend more money on promotions to try and increase those sales.

Finally, the **competition matching** method is used when there are a couple competitors that dominate the industry). In addition to their regular budgeting method, they will set aside some funds to match what their competition is doing. The goal is not to objective their own objectives but rather to keep the competitor from gaining market share.

## Promotional Objectives

In addition to considering recent market, consumer and technological shifts, brands must assess their marketing budget and target audience when setting IMC goals. An IMC strategy with a budget of \$2 million will be radically different in size, scope and reach than a marketing budget of only \$2,000. Thus, smaller businesses with tiny IMC budgets may rely heavily on social media advertising and word-of-mouth networks to increase brand presence and generate new leads, rather than more expensive television and billboard advertising.

Despite varying budgets, product features and benefits, and consumer behaviors, organizations typically set and work towards the following goals when implementing IMC strategies:

- To develop brand awareness
- To maintain reseller loyalty
- To increase consumer or business demand for a product category
- To change or influence customer beliefs or attitudes
- To enhance purchase actions
- To encourage repeat purchases
- To build customer traffic to physical stores, websites or other marketing channels
- To enhance firm/brand image
- To increase market share
- To increase sales
- To reinforce purchase decisions

IMC strategies may seek to achieve one, many or all of these objectives throughout the course of a campaign. However, multiple objectives should be prioritized. Once strategies have been implemented, they are not changed unless major new events occur. Only changes in the marketplace, new competitive forces, or new promotional opportunities should cause companies to alter strategies and reassess IMC goals.

## Product and the Product Life Cycle

Different products require different types of promotion. Very technical products and very expensive products (high involvement) often need professional selling so the customer understands how the product operates and its different features. By contrast, advertising is often relied upon to sell convenience goods and products purchased routinely (low involvement) since customers are familiar with the products and they spend relatively little time making purchase decisions.

**Characteristics:** A product's characteristics determine its target market and price.



The characteristics of the product are the features and elements that differentiate it from other products on the market. Product characteristics help determine the marketing mix, potential target market and the pricing of a product.

A product needs to differentiate itself in the market and carry distinct characteristics that separate it from its competitors. Otherwise, there would be no reason for consumers to purchase that product over any other product on the market. Consider the product life cycle and how that will impact a promotional strategy. The stage in the product life cycle affects the type and amount of promotion used. Products in the introductory stages typically need a lot more promotional dollars to create awareness in the marketplace. Consumers and businesses won't buy a product if they do not know about it. More communication is needed in the beginning of the product life cycle to build awareness and trial, thus they need to be more informational. However, in the maturity stage

where the competitive products are very similar, large investment in advertising and sales promotions are necessary to create an image associated with the product and to encourage customer preferences.

## Target Market Characteristics

To determine the best type of promotional strategy, a company should look at its target market. Companies should determine which forms of promotion will reach the most consumers in a specific target market, communicate the appropriate message, and will reach the intended audience. This strategy will help marketing departments efficiently use their promotional budget.

In order to select the best methods to reach different target markets, organizations need to know what types of media different targets use, how often they make purchases, where they make purchases, and what their readiness to purchase is as well as characteristics such as age, gender, and lifestyle. Some people are early adopters and want to try new things as soon as they are available, and other groups wait until products have been on the market for a while. Some consumers might not have the money to purchase different products, although they will need the product later. For example, are most college freshmen ready to purchase new cars?

We've already explained that different types of consumers prefer different types of media. In terms of target markets, college-aged students may prefer online, cell phone, mobile marketing, and social media more than older consumers do. Media preferences have been researched extensively by academics, marketing research companies, and companies to find out how consumers want to be reached.

## Push and Pull Strategies

Push and pull strategies are promotional strategies used to get the product to its target market. They involve the marketing channel.

### *Push Strategy*

A push strategy involves targeting channel members to carry and promote the product to the next channel member or the end user. Examples include, but are not limited to,

- At trade shows and showrooms: businesses can demonstrate the product's features to potential customers
- Offering discounts and promotional support to resellers
- Salespeople calling on resellers to carry the product and give it a place of prominence

### *Pull Strategy*

A pull strategy stimulates demand and motivates customers to actively seek out a specific product. It is aimed primarily at the end users. A strong and visible brand is needed to ensure the success of a pull strategy. The different ways a company can use a pull strategy to promote a brand include:

- Advertising strategies that include mass media promotion of a product
- Customer relationship management that makes existing customers aware of new products that will fill a specific need

- Referrals
- Sales promotions and discounts

Using these strategies will create a demand for the product. With that demand, retailers will be encouraged to seek out the product and stock it on their shelves. For instance, Apple successfully uses pull strategies to launch iPhones or iPads. Likewise, music has also fallen under pull strategies due to digitization and the emergence of social networking websites. Music platforms such as iTunes, Grooveshark and Spotify are reflective of the power shift from providers to consumers. Merchants must adapt their strategies to pull in demand, rather than push products—in this case, music—to consumers.

Most businesses will use a combination of push and pull strategies in order to successfully market a product.

## II. You Try It!



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<https://iu.pressbooks.pub/mktgwip/?p=357#h5p-21>

# 10.3 Promotional Mix: Public Relations and Sales Promotions

## I. Introduction

In this section we will discuss two of the promotional mix elements: public relations and sales promotions. **Public relations** are activities done to get others to pay attention to our brand and/or message. Organizations can spend significant funds on PR activities but there is a 'downside'. There is no guarantee what will end up being printed, distributed, or discussed. The risk with PR activities is that others, usually media, determine the final content and distribution.

**Sales promotions** tend to be short-term as they need to be changed frequently to be most effective. It has historically been viewed as the 'other' category in the promotional mix since it encompasses many variations. The goal is to stimulate demand for a quick boost to sales.

## II. Public Relations

Good public relations efforts can help a firm create rapport with its customers, promote what it has to offer, and supplement its sales efforts. PR puts a positive spin on news stories and is often perceived as more neutral and objective than other forms of promotion because much of the information is tailored to sound as if it has been created by an organization independent of the seller.

Public relations materials include press releases, publicity, and news conferences. Companies also use PR to promote products and to supplement their sales efforts.

Many organizations that engage in public relations have in-house PR departments, media relations groups, or investor relations groups. Other organizations sometimes hire external PR firms or advertising agencies to find and create public relations opportunities for them. PR specialists must build relationships with people at different media outlets to help get their stories placed. Universities, hospitals, government organizations, and charitable organizations often hire PR people to help disseminate positive information about their services and to increase interest in what they do. As such, PR is part of a company's promotion budget and their integrated marketing communications.

PR specialists also help political campaign managers generate positive information in the press. PR specialists can handle crisis communication and put a positive view on situations when something bad happens to an organization or person. In foreign markets, PR agencies may help ensure product concepts are understood correctly. Getting all PR stories placed in desired media is not guaranteed. A lot of time and effort is spent getting to know people who can help publish or announce the information to the public.

Companies use a variety of tools for their public relations purposes, including annual reports, brochures and magazines for both employees and the public, websites to show good things they're doing, speeches, blogs, and podcasts. Some of the most commonly used PR tools include press releases, and news conferences.

Part of a company's public relations efforts includes putting a positive spin on news stories. A press release is a news story written by an organization to promote a product, organization, or person. Consider how much better a story or a product recommendation is likely to be perceived when the receiver thinks the content is from an objective third party rather than an organization writing about

itself. Public relations personnel frequently prepare press releases in hopes that the news media will pick them up and disseminate the information to the public. However, there is no guarantee that the media will use a press release. Some of the PR opportunities that companies may seek to highlight in their press releases include charity events, awards, new products, company reports, and things they are doing to improve the environment or local community.

Similarly, companies that move into foreign markets are sometimes perceived negatively by locals because they have little information about the firms. In India, the reputation of companies is very important to workers and their families. As a result, U.S. employers recruiting in the tech industry in India often have to work hard to make their brands and products known so people will want to work for them. The firms do so via various PR efforts.

Just as press releases can be used to promote the good things an organization or person does, press conferences can also be held when a company is simply seeking good PR. An organization might hold a press conference to announce that it has hired new, highly sought-after executives, that it is breaking ground on a new building, or to talk about its community service projects.

The risk associated with PR activities is that the media controls the content. Since the information is being given to the media to distribute, it is up to them to decide what to use and how to edit.

## III. Sales Promotions

### A. Objectives of a Sales Promotion

Sales promotion is one of the many tools used in an organization's promotional mix. Sales promotional tactics include contests, coupons, point-of-purchase displays, premiums, prizes, product

samples, and rebates. Sales promotion may be referred to as “below the line” or “point of sale. ” For example, price reductions at the cash register or complimentary gifts with purchases all fall under sales promotional tactics. The objectives of a sales promotion is to increase consumer demand, stimulate market demand, to get potential buyers to heed a call to action, increase the size of purchases and improve product availability using media and non-media marketing communications. However, effective sales promotion techniques need to change frequently to pique the customers’ interest.

## B. Sales Promotion Techniques – Consumers



Sales promotions can be directed to consumers, channel members’ employees or other organizations. Sales and coupons are some of the most

**Coupons:** *The distribution of coupons is a common sales promotion tactic to encourage customer sales.*

common sales promotion tactics to stimulate interest and encourage consumers to purchase products. Reward programs focus on customer retention and repeat purchases, awarding customers points, miles, or credits for purchases and future redemptions. Besides price reduction and loyalty programs, point-of-purchase displays are a common tactic used by brands to prompt “impulse” customer purchases. For example, chewing gum and candy are often placed next to the register to increase sales of those products.

Other promotional tools include coupon booklets, mobile couponing, on-shelf couponing, as well as product signage and packaging, which are strategically placed to encourage immediate customer sales. For new marketing initiatives, brands implement

retail “mechanics” such as “Buy One, Get One Free” Or “Three for Two” promotions to encourage consumers to buy new market releases.

Brands also use sales promotion techniques to encourage supermarkets and stores to stock and display their products. Some of these trade promotion activities are:

- Trade allowances – Short-term incentives offered to retailers to stock up on a product.
- Dealer loaders – Incentives used to persuade retailers to purchase and display a product.
- Trade contests – Contests used to reward retailers that sell the largest quantity or highest units of a brand’s product.
- Training programs – Training instructing dealer employees in selling the brand’s product.
- Push money (also known as “spiffs”) – Extra commission paid to retail employees to push products.
- Trade discounts (also called functional discounts) – Payments to distribution channel members for performing certain functions.



## Coupons

A coupon is a ticket or document that can be exchanged for a financial discount or rebate when purchasing a product. Coupons offer instantly redeemable savings on certain products. That means that consumers get an instant reduction on the price at the point of purchase. They don't have to send anything to the manufacturer, they don't have to enter any type of contest. They walk away from the store with the satisfaction that they have saved money.

Why would a company let consumers walk away paying less for their product than the displayed price? Peer pressure may be one reason. Coupons are an inexpensive form of marketing. Due to this fact, almost half of all retailers say that they use some type of coupon program. If a company's competitors are doing it, the company will most likely consider doing it as well.

That's not the only reason, however. Coupon programs offer a host of benefits. They can:

- Increase the number of new customers – A customer may try a product just because they have a coupon for it and like it enough to continue to buy it.
- Help move a specific product
- Build brand awareness – A consumer sees the brand name on the coupon even when the coupon is not redeemed.
- Reward current customers – Customers are delighted when they receive the gift of savings from the manufacturer of a product that they buy regularly.
- Entice former customers to return
- Create the opportunity for the marketer to up-sell a more profitable product
- Provide the marketer with a highly measurable marketing program

The idea behind a coupon program isn't simply to get consumers to buy your product. You want them to notice your brand. Well-designed coupon programs accomplish that goal. In addition, retailers will benefit from such programs as it will drive traffic to their store.

Coupons, though, can have both advantages and disadvantages. The optimal scenario for marketers is that coupons create brand awareness without consumers using the coupon. In fact most coupons are never redeemed. This makes marketers happy as there is no reduction in revenue. A reduction of revenue, however, is just one of the disadvantages of a coupon program. Others include:

- Mass-cutting
- Counterfeiting
- Misredemptions

You will not be able to judge the effectiveness of your coupon campaign without testing and measuring it. Tracking codes let retailers know not only who redeemed the coupons, but also where the coupons were found. This data can help you decide which coupon is best for your target audience.

## Rebates

A rebate is an amount paid, by way of reduction, return, or refund on what has already been paid or contributed. It one of the sales incentives promotion marketers use to supplement product sales.

The *mail-in rebate* (MIR) is the most common.

Rebates are offered by either the retailer or the manufacturer of the chosen product. Large stores often work in conjunction with manufacturers, usually requiring two or even three separate rebates for each item. Manufacturer rebates are sometimes valid only at a single store. Rebate forms and special receipts are sometimes

printed by the cash register at time of purchase on a separate receipt, or available online for download.

In some cases, the rebate is available immediately, in which case it is referred to as an *instant rebate*. Some rebate programs offer several payout options to consumers, including a paper check, a prepaid card that can be spent immediately without a trip to the bank or even *PayPal* payout.

Rebates are heavily used for advertised sales in retail stores in the United States. In the UK, rebates are less common, with manufacturers and retailers preferring to give discounts at the point-of-sale rather than requiring mail-in or coupons. However rebates are sometimes given in the form of “cashback offers” for mobile phone contracts or other high value retail items sold alongside a credit agreement.

## Premiums

Another form of consumer sales promotion is the premium. Premiums are prizes, gifts, or other special offers received when a consumer purchases a product. When a company presents a premium, the consumer pays full price for the good or service, as opposed to coupons that grant price reductions or to samples, instead of receiving the actually product.

One of the first loyalty marketing programs ever offered was a premium in which proof of purchase was redeemed for prizes or gifts. Some marketing experts believe that coupon over-use damages a brand 's image, while premiums can actually enhance it. The key is to match the right type of premium with the product and a predisposed buyer.

Though not as successful as coupons, premiums can be used to boost sales and remain a valuable consumer promotional tool. In the United States, each year over \$4.5 billion is spent on premiums.

# Loyalty Marketing

Loyalty marketing is an approach to marketing, based on strategic management, in which a company focuses on growing and retaining existing customers through incentives.

Branding, product marketing and loyalty marketing all form part of the customer proposition – the subjective assessment by the customer of whether to purchase a brand or not, based on the integrated combination of the value they receive from each of these marketing disciplines.

The discipline of customer loyalty marketing has been around for many years, its value as an advertising and marketing vehicle have made it omnipresent in consumer marketing organizations since the mid- to late-1990s.

Some loyalty marketing industry insiders, such as Fred Reichheld, have claimed a strong link between customer loyalty marketing and customer referral. In recent years, a new marketing discipline called “customer advocacy marketing” has been combined with, or replaced, “customer loyalty marketing.” To the general public, many airline miles programs, hotel frequent guest programs and credit card incentive programs are the most visible customer loyalty marketing programs.



**Various Loyalty Cards:** Loyalty programs are structured marketing efforts that reward, and therefore encourage, loyal buying behavior.

## Contests and Sweepstakes

Consumers tend to like sales promotions because they get something for “free.” If you as a marketer really want to get their

attention, however, give a select few of them the chance to receive something with a high value.

Marketers who want to use this type of sales promotion have two options to choose from:

- Contests
- Sweepstakes

## *Contests*

Contests normally require the participant to perform some type of activity. The winner is selected based on who performs the best or provides the most correct answers. No purchase is required to enter a contest and a panel of judges determines the winner. Consumers can enter as many times as they wish, although it is permissible for firms to restrict customers to one entry per visit to the store.



**The Best Quote Wins:** Contests require skill; sweepstakes generally only reward luck.

## *Sweepstakes*

There is another consumer sales promotion known as a sweepstake (also known by its inflected forms which are both single and plural: sweepstakes and sweeps). These have become associated with marketing promotions targeted toward both generating enthusiasm and providing incentive reactions among customers. A sweepstake entices consumers to submit

free entries into drawings of chance (and not skill) that are tied to product or service awareness wherein the featured prizes are given away by sponsoring companies.

Prizes can vary in value from less than one dollar to more than one million U.S. dollars and can be in the form of cash, cars, homes, electronics, and so on. In Australia, New Zealand and the United Kingdom, a sweepstake is known as a competition.

Sweepstakes frequently have eligibility limited by international, national, state, local, or other geographical factors.

Sweepstakes are often referred to by marketing promoters as second-chance sweepstakes when utilized in conjunction with the awarding of unclaimed prizes during instant-win promotions.

## Sampling

In 2000, best-selling author Seth Godin released a book entitled “The Idea Virus” and then proceeded to give it away for free. Was Seth, who has sold tons of books, suffering from temporary insanity? No, quite the contrary. You see, Seth knew that if he gave the book away for free, people would read it, and if they liked it they would help create a buzz about the book. That’s exactly what happened. In less than a month, 400,000 copies were downloaded for free and even though the downloads were free, people bought the hardcover. The book ended up being #5 on Amazon.com’s best seller list. The promotion strategy Seth Godin used is called sampling and when done correctly it can be one of the most effective ways to market your product.

A free sample or “freebie” is a portion of food or other product (for example, beauty products) given to consumers in shopping malls, supermarkets, retail stores, or other venues. Sometimes samples of non-perishable items are included in direct marketing mailings.

The purpose of a free sample is to acquaint the consumer with a new product. It is similar to the concept of a test drive, in that a customer is able to try out a product before purchasing it.

Many consumer product companies now offer free samples through their websites to encourage consumers to regularly use the products and to gather data for mailing lists of potentially interested customers.

Food courts, grocery stores, and companies such as Costco

and Sams Club routinely give out free samples to customers to persuade them to buy the product. Paint chips are samples of paint colors that are sometimes offered as free samples.

The expansion of online marketing with regard to promotional giveaways has facilitated the rise of “Freebie sites” that seek to aggregate all promotional free sample offers in one place. These sites will often compile free product samples from all over the web and categorize them by type.

Some product sample offers may require consumers to complete a survey or refer a friend to qualify for the freebies. When all requirements are fulfilled, the product samples are shipped to the consumer.

Additionally, the advent of the social graph and the realization that consumers take more and more cues from each other’s reviews, has opened up a new branch of sampling called social sampling.



**Try it, You'll Like it.:** *This free wine tasting allows potential buyers to try, or sample, the wine before making a purchase.*

## Point-of-Purchase Promotions

At some point in your life, you have been motivated and stimulated to buy something on impulse: an unplanned and somewhat emotionally driven purchase. Don't be ashamed. You aren't alone. According to research, almost 66% of all decisions to buy something are made while people are in the store shopping. What's more, 53% of these decisions are classified as impulse buying.

Point of purchase promotions offer marketers one of the most effective sales promotion tools included in the “promotional mix.”

Point-of-sale displays (POS) are a specialized form of sales promotion found near, on, or next to a checkout counter (the “point of sale”). They are intended to draw the customers’ attention to products. These may be new products, a special offer, or may promote special events, such as seasonal or holiday-time sales.

POS displays can include:

- shelf edging
- dummy packs
- display packs
- display stands
- mobiles
- posters
- banners.



**Point-of-Purchase Display:** A point-of-sale display selling products related to the Easter holiday.

Note that POS can also refer to systems used to record transactions between the customer and the commerce, such as check-out registers, which are used at the point of sale. Don't get confused if you see it used in this context.



Trade discounts and allowances are price reductions given to middlemen (e.g. wholesalers, industrial distributors, retailers) to encourage them to stock and give preferential treatment to an organization's products. For example, a consumer goods company may give a retailer a 20% discount to place a larger order for soap. Such a discount might also be used to gain shelf space or a preferred position in the store. Trade discounts are often combined to include a series of functions, for example 20/12/5 could indicate a 20% discount for warehousing the product, an additional 12% discount for shipping the product, and an additional 5% discount for keeping the shelves stocked with the product.

## Sales Contests

It is common for a manufacturer, for example, to sponsor sales contests for the employees of their distributors, retailers, etc. These contests are usually for significant prizes such as major electronics or trips. The goal is to encourage the sales people to emphasize the manufacturer's products over that of the competition.

## Trade Shows

Trade shows are an excellent way to get a company's name, products, and branding in front of the target audience. Trade shows can range from small, local shows to very large international shows. They revolve around a specific industry. Any vendor who sells any type of product to that industry can apply to rent booth space. This includes vendors who sell products directly used in the industry, to outsourcing services such as payroll and human resource services to marketing and financial institutions. Attendees walk around the exhibit space at their own pace, visiting the booths that have

products of interest to them. Informal yet informational conversations take place and, if the attendee is interested, they will give their contact information to the vendor to be followed up after the trade show.

# 10.4 Promotional Mix: Personal Selling and Sales Management

## I. Introduction

Personal selling is when a company uses salespersons to build a relationship and engage customers to determine their needs and attain a sales order that may not otherwise have been placed. The personal selling process is a seven step approach: prospecting, pre-approach, approach, presentation, meeting objections, closing the sale, and follow-up. In addition to the sales effort, sales management has become an integral part of any organization's marketing strategy. The sales manager is the bridge between the company and its salespeople, ensuring that objectives and policies are being met. To understand the importance of the sales, keep in mind that what the salespeople accomplish create the top line – or revenue – for an organization. Without them, there would be not be a positive bottom line.

## II. Types of Salespeople

There are different ways to categorize salespeople. They can be categorized by the customers they work with, such as whether they are consumers, other businesses, or government institutions. Another way to categorize salespeople is by the size of their customers. Most professional sales positions involve selling to other

businesses, but many also sell to consumers like you. There are three general types of salespeople: order getters, order takers, and sales support.

**Order getters** are responsible for generating new sales by prospecting and acquiring new customers. Depending on the industry, this can be a very time consuming process as multiple bids and meetings are conducted to try and ‘win’ a potential customer’s business.

**Order takers** primarily deal with existing customers. Often the term Account Manager is used for order takers. They are responsible for being the ‘face’ of the company to the customer and to work with the customer to ensure their needs are being met and expectations are exceeded.

**Support personnel** are professionals not directly involved in the sales or revenue generating process, but nonetheless have an important role to play in a company’s success. While support personnel are often seen as those providing after-sales service or technical assistance, the definition of support staff also includes functions such as accounting, finance, human resources, supply chain, etc. Other common support roles that work with sales managers directly or assist clients and customers with product and service issues include sales engineers, technical support specialists, and customer support representatives.

In some organizations, these are three very distinct roles. In other organizations, one person may assume all three roles at different times. There is not a right or wrong way to organize the sales force in this manner but care needs to be given that the customers’ best interest is always the main consideration.

### III. The Sales Process

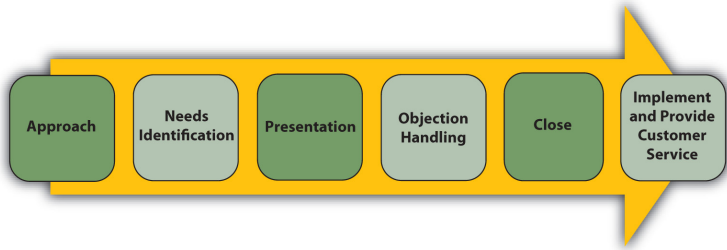
The typical sales process involves several stages, beginning with the preapproach and ending with customer service. In between are

other stages, such as the needs-identification stage, presentation stage, and closing stage (see Figure 10.4a “The Typical Sales Process”).

The preapproach is the planning stage. During this stage, a salesperson may use LinkedIn to find the right person to call and to learn about that person. In addition, a Google search may be performed to find the latest news on the company, while a search of financial databases, such as Standard & Poor's, can provide additional news and information. A salesperson may also search internal data in order to determine if the potential buyer has any history with the company. Note that such extensive precall planning doesn't always happen; sometimes a salesperson is literally just driving by, sees a potential customer, and decides to stop in, but in today's information age, a lot of precall planning can be accomplished through judicious use of Web-based resources.

In the approach, the salesperson attempts to capture enough of the prospective customer's attention and interest in order to continue the sales call. If it is a first-time call, introductions are needed. A benefit that could apply to just about any customer may also be offered to show that the time will be worthwhile. In this stage, the salesperson is attempting to convince the buyer to spend time exploring the possibility of a purchase.

## Figure 10.4a The Typical Sales Process



A typical sales process starts with the preapproach and move through several stages to the close. Good salespeople continue with making sure the customer gets the product, uses it right, and is happy with it.

With the buyer's permission, the salesperson then moves into a needs identification section. In complex situations, many questions are asked, perhaps over several sales calls. These questions will follow the SPIN outline or something similar. Highly complex situations may require that questions be asked of many people in the buying organization. In simpler situations, needs may not vary across customers so a canned presentation is more likely. Then, instead of identifying needs, needs are simply listed as solutions are described.

A presentation is then made that shows how the offering satisfies the needs identified earlier. One approach to presenting solutions uses statements called FEBAs. FEBA stands for feature, evidence, benefit, and agreement. The salesperson says something like, "This camera has an automatic zoom [Feature]. If you look at the viewfinder as I move the camera, you can see how the camera zooms in and out on the objects it sees [Evidence]. This zoom will help you capture those key moments in Junior's basketball games that you were telling me you wanted to photograph [Benefit]. Won't that add a lot to your scrapbooks [Agreement]?"

Note that the benefit was tied to something the customer said was important. A benefit only exists when something is satisfying a

need. The automatic zoom would provide no benefit if the customer didn't want to take pictures of objects both near and far.

Objections are concerns or reasons not to continue that are raised by the buyer, and can occur at any time. A prospect may object in the approach, saying there isn't enough time available for a sales call or nothing is needed right now. Or, during the presentation, a buyer may not like a particular feature. For example, the buyer might find that the automatic zoom leads the camera to focus on the wrong object. Salespeople should probe to find out if the objection represents a misunderstanding or a hidden need. Further explanation may resolve the buyer's concern or there may need to be a trade-off; yes, a better zoom is available but it may be out of the buyer's price range, for example.

When all the objections are resolved to the buyer's satisfaction, the salesperson should ask for the sale. Asking for the sale is called the close, or a request for a decision or commitment from the buyer. In complex selling situations that require many sales calls, the close may be a request for the next meeting or some other action. When the close involves an actual sale, the next step is to deliver the goods and make sure the customer is happy.

There are different types of closes. Some of these include:

- Direct request: "Would you like to order now?"
- Minor point: "Would you prefer red or blue?" or "Would you like to view a demonstration on Monday or Tuesday?"
- Summary: "You said you liked the color and the style. Is there anything else you'd like to consider before we complete the paperwork?"

When done properly, closing is a natural part of the process and a natural part of the conversation. But if pushed inappropriately, buyers can feel manipulated or trapped and may not buy even if the decision would be a good one.

The sales process used to sell products is generally the same regardless of the selling strategy used. However, the stage being

emphasized will affect the strategy selected in the first place. For example, if the problem is a new one that requires a customized solution, the salesperson and buyer are likely to spend more time in the needs identification stage. Consequently, a needs-satisfaction strategy or consultation strategy is likely to be used. Conversely, if it's already clear what the client's needs are, the presentation stage is likely to be more important. In this case, the salesperson might use a script-based selling strategy, which focuses on presenting a product's benefits rather than questioning the customer.

## IV. Sales Management

### A. Introduction

Sales operations are a set of business activities and processes that help a sales organization run effectively, efficiently, and in support of business strategies and objectives. Sales operations may also be referred to as sales operations, sales support, or business operations. The set of sales operations activities vary from company to company but often include these categories:

- Sales strategy: design, planning, execution;
- Measurement of results: reporting, analytics and sales data;
- Compensation, sales quota, policies;
- Technology and tools, including CRM;
- Training and sales communication;
- Sales territory design and optimization;
- Contests/spiffs;
- Lead generation/sales programs; and
- Customer segmentation.

We will not discuss all of these categories but will highlight the major responsibilities of sales managers.

## B. Creating The Sales Force Structure

How will the sales process be structured? The answer to that question, an important one, depends on the company's strategy. The resulting structure will guide the sales force and their actions and will, therefore, impact the company's bottom line.

When developing the sales force structure, sales managers must:

- Figure out the right mix of generalists, product, market, or activity specialist with the objective of balancing sales force productivity. What is the right mix? That depends on the company and its offerings.
- Design a reporting structure that makes it easy to both coordinate and control the sales process and the activities of the salespeople.
- Help the sales people achieve their goals (and reduce stress) by providing training, coaching, incentives, information support, and performance management.

## Effective Job Design

Job design, defined as the allocation of specific work tasks to individuals and groups, is critical for any organization. Allocating jobs and tasks means specifying the contents, methods, and relationships of jobs to satisfy technological and organizational requirements as well as the personal needs of jobholders. If successful job design is not implemented, then the company's general strategy and direction will be strongly diverted. Employees,

in turn, will be demotivated. Meaningful jobs must exemplify the company's goals and culture.

Paradigm	Focus	Key success factors
Discrimination-and-fairness	Equal opportunity, fair treatment, recruitment, and compliance with US federal Equal Employment Opportunity requirements Leaders work towards restructuring the makeup of the organization to reflect more closely that of society	Effectiveness in its recruitment and retention goals rather than by the degree to which companies allow employees to draw on their personal assets and perspectives to do their work more efficiently
Access-and-legitimacy	Need of a more diverse workforce to help companies gain access to the differentiated segmentsMatches the demographics of the organization to those of critical consumer or constituent groups	Degree to which leaders in organizations understand niche capabilities and incorporate them into differentiated categories aligned to their business strategy
Learning-and-effectiveness	Incorporates employee's perspectives into the main work of the organization Enhances work by rethinking primary tasks and redefining markets, products, strategies, missions, business practices, and even cultures	The promotion of equal opportunity and acknowledgment of cultural differences Organizational learning and growth fostered by internalizing differences among employees
End goal: Leaders should thrive to shift to the Learning-and-effectiveness paradigm to approach diversity as a means to higher knowledge and productivity.		

TABLE 1: Paradigms of diversity

**Paradigm of diversity:** *Following the above paradigms can lead to a more motivated and more successful sales team (and workforce in general).*

Individuals, including salespeople, need to be compelled and excited to do their work. It is thus essential to design their jobs with the goal of motivating them. Motivation describes the forces within the individual that account for the level, direction, and persistence of effort expended at work. Appropriate resource allocation allows large organizations to foster and develop innovation in their workforce. Reward systems include compensation, bonuses, raises, job security, and benefits. Job design is the base element for producing effective work organizations, so without meaningful job design, an organization will never operate to its potential.

## Designing Territories

Sales territories are the customer groups or geographic districts for which individual sales people or sales teams hold responsibility. Territories can be defined on the basis of geography, sales potential, history, or a combination of factors. Companies strive to balance their territories, because this can reduce costs and increase sales.

## C. Recruiting and Selecting Salespeople

A great deal of recent research has underscored the strategic advantage of managing employees as if they are assets rather than commodities. Making investments in a business's assets makes a great deal of sense, because these investments will bring a return. A growing number of companies, recognizing that their employees are among their most valuable assets, are backing up that recognition with solid investment.

### Recruitment of the Sales Force

Recruitment of talented employees is an essential part of any company's ability to maintain success and ensure the achievement of standards within an organization. Recruiting sales personnel is no different. Recruiting sales personnel consists of actively compiling a diverse pool of potential candidates which can be considered for employment. In different industries, the constant need for talent creates a highly competitive marketplace for individuals, and it is important for any manager to be aware of these factors as they develop recruitment programs and policies.

### Methods of Recruitment: Internal and External

There are two principal ways to recruit workers: internally and externally. Most companies will actively use both methods, ensuring opportunities for existing employees to move up in the organization while at the same time fielding new talent. Internal recruitment is often the most cost effective method of recruiting potential

employees, as it uses the existing company resources and talent pool to fill needs.

External recruitment focuses resources on looking outside the organization for potential candidates and expanding the available talent pool. The primary goal of external recruitment is to create diversity among potential candidates by attempting to reach a wider range of individuals unavailable through internal recruitment. Although external recruitment methods can be costly to managers in terms of dollars, the addition of a new perspective within the organization can carry many benefits which outweigh the monetary costs.

## Selecting Quality Candidates

After obtaining a large, qualified applicant base, managers need to identify those applicants with the highest potential for success. Selective hiring helps prevent the costly turnover of staff and increases the likeliness of high employee morale and productivity.

To evaluate the fit, it is important for managers to create a list of relevant criteria for each position before beginning the recruitment and selection process. Each job description should be associated with a list of critical skills, behaviors, or attitudes that will make or break job performance. When screening potential employees, managers need to select based on cultural fit and attitude as well as technical skills and competencies. There are some companies, such as Southwest Airlines, based out of the United States, who hire primarily based on attitude because they espouse the philosophy that you hire for attitude, train for skill. According to former CEO Herb Kelleher, “We can change skill levels through training. We can’t change attitude.” Attitude and personality is especially important for sales positions, as they are often a customer’s first and only point of contact with the company.

Managers must strive to identify the best applicants at the lowest

cost. Companies have a variety of processes available to screen potential employees, so managers must determine which system will generate the most accurate results. The methods of selection vary both in levels of effectiveness and in cost of application. In addition to biographical information, companies can conduct personal interviews, perform background checks, and request testing. Because of the costs associated with these measures, companies try to narrow down the number of applicants in each round of hiring.

## D. Sales Training

In general, training provides many diverse benefits both to the company as well as to the salesperson. Training is generally defined as the act of teaching a skill or behavior. However, what does this mean in business terms? Simply put, training in business is the investment of resources in the employees of a company so that they are better equipped to perform the tasks of their job. The type of resources invested may include time to learn, money to create programs and develop training materials, training effectiveness evaluation systems, etc.



**Training:** Training can be conducted in many ways, such as in a lecture or classroom format (above), online, or any number of ways.

## Need for Training

The need for training varies depending on the type of organization that is being discussed; a manufacturing company has different training needs than an insurance firm. But regardless of the type of company being discussed, appropriate training systems can greatly benefit the company. Sales personnel will need different types of specialized training depending on the industry and the company's unique circumstances.

How does one decide on a training system? The process begins with a training needs assessment. This assessment ought to be a systematic and objective analysis of the training needs in three main areas—organizational, job, and person. Organizational needs deal mostly with the skills the company is looking for, the labor force,

etc. whereas the job needs focus on the skills that the company views as necessary for a specific position. Then there are the person needs, and these are the most variable needs. Often these needs arise after a gap is seen in the expected performance compared to the actual performance of the employee. Training can also be a part of a young employee's "exploration" stage, where training can be used to focus the employee's interest and development towards a specific area.

## **E. Motivating and Compensating Salespeople**

Employees are best motivated through effective job design, equitable compensation, and treatment as stakeholders in the company.

### Types Of Compensation

Cash is one way to compensate employees, but cash alone is rarely enough payment. Benefits and other forms of non-monetary compensation are becoming more appropriate forms of compensation for employees in today's workplace. In order to attract, retain, and motivate the best employees, benefits and other sources of non-monetary compensation should be considered. If the company has an understanding of what they can offer to employees, benefits can increase a company's workforce quality and the general morale of employees.

Companies can offer different types of benefits in order to create a positive culture for their employees. These benefits have the ability to promote social interaction among employees, make life easier for working parents, or improve their quality of life. Depending on the industry and job type, benefits may be more attractive than salary figures. This fact could allow companies to pay lower wages, thus reducing the total amount spent on payroll.

## Commission

It is important to design reward systems carefully, taking into consideration base salary and other incentives. This notion applies especially to salespeople. Most compensation systems include “variable pay.” Depending on work performance, many companies reward their employees without affecting the base salary. To reward employees for achieving a set goal, many companies use bonuses. To this point, companies such as GE, HP, and Sun Microsystems use software that directly evaluates the behavior of employees with respect to customer service. Long-term incentives are also a part of reward systems. Stock options and profit-sharing plans are representative of long-term reward systems.

## F. Measuring Sales Force Performance

Appraisals are the common form of measuring how well an employee performed compared to a set of stated objectives; feedback communicates these evaluations.

## Performance Appraisals

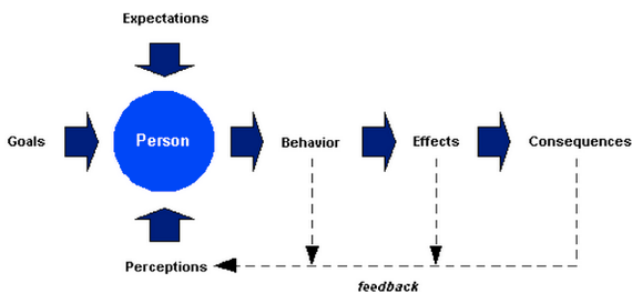
Historically, performance appraisals have been used by companies for a variety of different purposes, including salary recommendations, promotion and layoff decisions, and training recommendations. In general, “performance elements tell employees what they have to do and standards tell them how well they have to do it” (United States Department of the Interior, 2004). One key item that is often forgotten during the appraisal process (by managers and employees alike) is that the appraisal is for improvement, not blame.

Numerous methods exist for gauging an employee's performance, and each provides strengths and weaknesses for given environments. Appraisal methodologies depend greatly on the type of work being done; an assembly worker will require a considerably different appraisal system than a business consultant. Similarly, a salesperson will be appraised very differently than a researcher.

Performing an appraisal can be nerve racking for both parties if the situation is not handled correctly. There are many acts a manager can perform to make the process easier on both parties, and hopefully, mutually beneficial. Many assume that performance appraisals are meant to identify weaknesses to be worked on, and exposing these weaknesses can be painful for employees. Studies show that organizations should be leveraging the strengths of each employee rather than focusing on their weaknesses. Yearly performance reviews are becoming increasingly rare as companies begin to see the benefits of frequent appraisal. Constant fine tuning of performance can be much more effective than annual overhauls.

## Feedback

In the broadest sense, feedback is simply verbal or nonverbal communication between two or more parties. Feedback should be given in all work situations, good and bad. However, people sometimes think of feedback as being synonymous with criticism when it is given in situations where expectations have not been met. Regardless, we are constantly surrounded by feedback as we see the consequences of our actions and how our actions affect the impressions of those around us, as shown in this feedback diagram.



**Feedback:** Feedback is an essential part of our personal life and our work environment, making, giving, and receiving feedback successfully is critical.

One common problem that managers overlook when reviewing performance is remembering that feedback is not all about forms. Traditional performance reviews have checklists, ratings, or reports that are used as tools to analyze feedback in the organization. While these forms are useful in documenting and appraising a person's performance, feedback should not be dictated by the type of form an organization uses. Instead, it should be well thought out and measured according to the individual employee in question, considering their unique circumstances and abilities.

# 10.5 Promotional Mix: Advertising

## I. Introduction

Undoubtedly, advertising is the promotional element that most consumers feel they know the best and hold strong opinions about. This is a result of the visibility and intrusiveness of advertising. In fact, most people have little understanding of advertising. There are, within the advertising industry, a wide variety of means by which advertising is created and placed in media. At one extreme, an individual might write and place his own classified ad on social media in the hope of selling his daughter's canopy bed. At the other extreme, the advertiser employs a full-service advertising agency to create and place the advertisement, retaining only the function of final approval of plans developed by that agency. Significant specialization is developed within the full-service advertising agency to discourage clients from hiring any outside vendors or other parties to perform any of the various functions involved in planning and executing advertising programs for the various advertisers that the agency serves. Another organizational possibility is a full-scale, in-house advertising department. This department may have total responsibility for all aspects of the advertisement, or some of the tasks might be optioned out to ad agencies or other types of specialty organizations, e.g. production, talent, media placement. It is not unusual for a large corporation to employ all of these possibilities or to use different agencies for different products or for different parts of the country.

Whether or not the advertiser uses an advertising agency, does their advertising in-house, or uses some combination of the two

depends upon a host of factors unique to each organization: available funds, level of expertise, expediency, and so forth. Regardless of the influencing factors, a number of basic functions must be performed by someone if creative and effective advertisements are to be placed:

- what products, institutions, or ideas are to be advertised;
- who is to prepare advertising programs;
- who the organization engages and gives policy and other direction to the advertising agency, if any agency is used;
- who in the organization has the authority to develop advertising work and/or approves the advertising programs presented by the advertising agency;
- who pays the advertising bill;
- who determines the extent to which advertisements help reach the stated objectives.<sup>1</sup>

## II. Types of Advertising

### Corporate / Institutional Advertising

The primary purpose of advertising is to sell products or services. The company pays a fee or expense to have a message that simultaneously explains its brand or product distributed to as many people as possible. But sometimes it is designed to do something else: to build or solidify an image of the company. Such advertising is called institutional or corporate advertising. Advertising can be national or local; it can address itself to any kind of audience; it can use any medium. Often such advertising is an exercise in self-praise. It attempts to build a favorable image for its sponsor.

When Wells Fargo Bank in California merged with American Trust

Company, company officials were ready to go with the name “American Trust,” but designer Walter Landor convinced them that “Wells Fargo” would give them a more distinct image as the bank of the West. With an easily recognized symbol – a stage coach encased in a diamond shape – and some skillful advertising infused with an Old West flavor, the bank tends to appeal to newcomers, who pick it simply because it seems to come with the territory.

Image is particularly important among organizations whose products or services are relatively uniform. How a company advertises projects that image. The image must be concise, express the mission of the company, and its delivery must be consistent each time it is used.

If an attempt to sell a product creeps into institutional advertising, it does so in a passive voice. It can be aimed at a business, a consumer, or involve two businesses and slanted as a cooperative advertising. No matter its form, corporate advertising is

## Advocacy Advertising

Advocacy advertising is related to institutional advertising. The difference is that in advocacy advertising, the sponsor pushes a point of view that may have nothing to do with selling the product or building an image.

According to Professor Robert Shayon of the University of Pennsylvania Annenberg School of Communications, corporations have taken to advocacy advertising because they feel they are not getting a fair shake from what they believe to be a generally hostile press; and because they are convinced that the business world can make significant contributions to public debate on issues of great importance—energy, nuclear power, conservation, environment, taxation, social justice, and free enterprise, among others.

Some state legislatures have drafted laws to restrict this kind of advertising, and the Internal Revenue Service does not regard the

advertising as a necessary business expense. However, sometimes it is difficult to identify the difference between advocacy advertising and institutional advertising, which is a tax-deductible expense.

## Product Advertising

Product advertising occurs when the purpose of the promotion is to create awareness or build a preference for a specific offering of the company. The stage in the Product Life Cycle (PLC) of which a product is in often determines the type of advertising that is used by advertisers. The types of product advertising that marketers can choose from are:

- Pioneering
- Competitive
- Comparative

**Schneeweiss leuchtet der Schmelz Ihrer Zähne**

Die neue  
Mittelröhre  
Fr. 1.75 + St.

**So weiß macht nur Odol die Zähne**  
**Überzeugen Sie sich selbst:**

Bürsten Sie die Zähne morgens und abends mit Odol-Zahnpasta. Dann lassen Sie die Zunge langsam über die Zähne gleiten. Der raue Belag ist verschwunden, glatt und sauber sind jetzt Ihre Zähne. Nur Odol mit dem neuen Wirkstoff hat diese besondere Reinigungskraft. Wie herrlich im Anosma — der feine Odol-Schaum. Kein Seifengeschmack mehr.

**Product Advertising:** The type of product advertising a company chooses depends on where the product is in its life cycle.

## 1. Pioneering Advertising

This form of advertising is designed to stimulate primary demand for a new product or product category (McDaniel *et al*, 2006). It is heavily used in the introductory stage of product life cycle when a new product is launched.

This type of product advertising provides in-depth information of the benefits of using a product or service. It is often used to create interest and to increase the public's awareness.

## 2. Competitive Advertising

The goal of using competitive advertising is to influence demand for a specific brand (McDaniel *et al*, 2006). The advertisers usually provide information regarding a product's attributes and benefits which may not be available from competing products (Yeshin, 1998). Even when other brands own the same attributes or benefits, advertisers often create an impression that their products are somehow 'much better' than other, similar products available in the marketplace. These benefits can be image based. Competitive advertising is the most common product advertising done in the growth and maturity stages of the product life cycle.

## 3. Comparative Advertising

Comparative advertising compares two or more competing brands on one or more specific attributes, be it directly or indirectly (McDaniel *et al*, 2006). Comparative advertising gives consumers a logical decision factor as most of them do not want to make decisions (MacArthur and Cuneo, 2007). This way, by comparing one company's brand with other competing brands in

the advertisement, the company most likely helps the consumers to choose which brand they would prefer to use. While comparative advertising is illegal in many countries, it is legal in the United States. Companies have to be very careful about what they say or imply regarding competitive product as lawsuits can be filed over perceived inaccuracies.

### III. Designing the Advertising Campaign

#### A. Objectives

Advertisers must examine their promotion objectives. What are they trying to accomplish with their promotions? Are they trying to build awareness for a new product, are they wanting to get people to take action immediately, or are they interested in having people remember their brand in the future? Building primary demand, or demand for a product category, such as orange juice, might be one objective, but a company also wants to build selective demand, or demand for its specific brand(s), such as Tropicana orange juice.

Advertising objectives should always be in line with promotional and marketing objectives, as well as the business strategy or mission of the organization. We can group advertising objectives fall into three categories:

- To Inform
- To Persuade
- To Remind

## Informative Advertising

Informative advertising is often used when launching a new product, or for an updated or relaunched product. The objective is to develop initial demand for a good, service, organization, or cause. It is used when a new product is put on the market or when an old product has been re-launched or updated.

Informative advertising will tell the consumer and marketplace about the product, explain how it works, provide pricing and product information, and should build awareness for the product as well as the company. The image of the product and the company should be compatible and complementary. There should be enough information to motivate the consumer to take some sort of action.

## Persuasive Advertising

Marketers use persuasive advertising to increase the demand for an existing good, service, or organization. The idea is to persuade a target audience to change brands, buy their product, and develop customer loyalty. After the purchase, the quality of the product will dictate whether or not the customer will remain loyal or return to the previous brand.

Persuasive advertising is highly competitive when there are similar products in the



**Coca-Cola:** Coca-Cola is an established brand which uses reminder advertising.

marketplace, and products are competing for their share of the market. In this situation, the winning product will differentiate itself from the competition and possess benefits that are superior to, or compete strongly with, the competition. Comparative approaches are common place, either directly or indirectly.

## **Reminder Advertising**

Reminder advertising reinforces previous promotional information. The name of the product, testimonials of past customers, public response, and sales techniques are repeated in the hopes of reminding past customers and garnering new ones. It is used to keep the public interested in, and aware of, a well-established product.

## **B. Researching the Target Market**

When developing an advertising campaign, be it organization-wide or product-specific, a critical input is identifying the target market. Creating generic advertising campaigns for the entire population is usually not strategic, both in terms of focus and capital. Advertisers should instead narrow down the population to an ideal segment, based upon various factors. This target segment may be the same as the firm's target market, it can be a sub-set – such as a specific demographic – or it can be a new segment.

## **C. Determining the Message**

The Unique Selling Point or Proposition (USP) is a marketing

concept that was first proposed as a theory to understand a pattern among successful advertising campaigns of the early 1940s. The term was invented by Rosser Reeves of Ted Bates & Company and states that certain campaigns make unique propositions to customers to convince them to switch brands. Today the term is used in other fields to refer to any aspect that differentiates one object from similar objects.

The term USP has also been largely replaced by the concept known as a Positioning Statement. Positioning determines what place a brand (tangible good or service) should occupy in the consumer's mind in comparison to its competition. A position is often described as the meaningful difference between the brand and its competitors.

Another consideration is the appeal to be used. Whether the message is framed as informative, humorous, emotional, relatable, etc. determines how the message is received and will guide the medium best suited to conveying that appeal.

## D. Choosing the Correct Medium

### Developing the Media Plan

Advertising media selection is the process of choosing the most cost-effective media for advertising to achieve the required coverage and number of exposures in a target audience.

Although the media plan is placed later in this process, it is in fact developed simultaneously with the creative strategy. This area of advertising has gone through tremendous changes; a critical media revolution has taken place.

The standard media plan covers four stages: (a) stating media objectives; (b) evaluating media; (c) selecting and implementing media choices; and (d) determining the media budget.

## Stating Media Objectives

Media objectives are normally stated in terms of three dimensions:

1. **Reach:** The number of different persons or households exposed to a particular media vehicle or media schedule at least once during a specified time period.
2. **Frequency:** The number of times within a given time period that a consumer is exposed to a message.
3. **Continuity:** The timing of media assertions (e.g., 10% in September, 20% in October, 20% in November, 40% in December and 10% the rest of the year).

## Evaluating Media

There are definite inherent strengths and weaknesses associated with each medium. In addition, it would require extensive primary research, either by the sponsoring firm or their advertising agency in order to assess how a particular message and the target audience would relate to a given medium. As a result, many advertisers rely heavily on the research findings provided by the medium, by their own experience, and by subjective appraisal.

## Selection and Implementation

The media planner must make media mix decisions and timing directions, both of which are restricted by the available budget. The media mix decision involves putting media together in the most effective manner. This is a difficult task and necessitates quantitatively and qualitatively evaluating each medium and combination thereof. Common media choice include, but are not

limited to, social media, television, mail, email, radio, outdoor advertising, and product placement. Product placement occurs when a company pays a production company to include their product in a television show, movie, video game. etc.

Unfortunately, there are very few valid rules of thumb to guide the media selection process, and the supporting research is spotty at best. For example, in attempting to compare audiences of various media, we find that A C Nielsen measures audiences based on TV viewer reports of the programs watched, while outdoor audience exposure estimates are based on counts of the number of automobile vehicles that pass particular outdoor poster locations.

The timing of media refers to the actual placement of advertisements during the time periods that are most appropriate, given the selected media objectives. It includes not only the scheduling of advertisements but also the size and position of the advertisement.

Another common consideration is to follow the AIDA model (attention, interest, desire, and action). AIDA objectives typically are achieved in steps. First, companies focus on attention and awareness of a product or service, which is especially important for new offerings. If a consumer or business is not aware of a product or service, they won't buy it. Once consumers or businesses are aware of products or services, organizations try to get consumers interested and persuade them that their brands are best. Ultimately, companies want consumers to take action or purchase their products or services. AIDA can be applied in one advertisement, such as a commercial, where it will try to accomplish all the steps in a short period of time, or AIDA can be applied sequentially with one ad creating attention, another interest, the third building desire and finally, an advertisement encouraging action. AIDA can also be applied in a hybrid of the two approaches just mentioned.

## E. Evaluation

With the massive growth in online activity and potential channels of promotion, the measurement of marketing and advertising efforts consists of more tools and possibilities than ever before. Understanding the opportunities for measurement within the field of performance-based marketing is the first step to accurately planning campaigns which can be measured effectively.

This list of potential metrics is a great starting point for performance-based marketers to consider, particularly online marketers:

**Cost Per Click (CPC)** – Simply put, the organization can look at an online campaign's overall costs and overall clicks. By dividing the overall cost by the overall quantity of clicks, the advertising team can determine how much each click is worth. Keep in mind, a click is not necessarily a sale! So other metrics may be required to make financial sense of a CPC data point.

**Cost Per Impression (CPI)** – Also referred to as CPM, the cost per impression is usually measured in the cost per thousand impressions (due to the massive volume of online distribution). If a campaign costs \$10,000 and reaches 1,000,000 people, the cost per thousand impressions (CPI) is \$10.

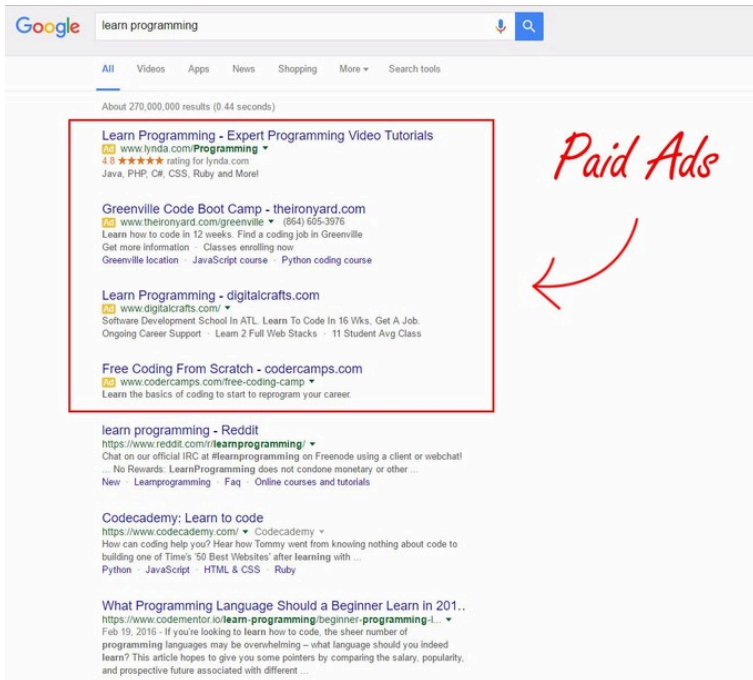
**Reach** – A simple metric, reach determines the overall volume of potential consumers an ad will engage. This is a useful input variable for a variety of other metrics, as well as a viable metric in and of itself.

**Gross Rating Point (GRP)** – With an understanding of CPI in place, this metric expands on that data point by comparing it to the overall penetration of the target market. That is to say, a GRP is going to measure the total number of impressions relative to the overall size of the target population, or  $GRPs (\%) = 100 * Impressions (\#) \div \text{Defined population } (\#)$ .

**Click-through Rate (CTR)** – The click-through rate (CTR) is related to the CPC and CPI, but measures a relative percentage of

impressions to clicks. This is a bit different than the other calculations, as it implies relevance and quality from the eyes of the consumer between advertisements. So if advertising campaign A has a CTR of 2% and advertising campaign B has a CTR of 4%, it would appear that B is twice as relevant when it comes to engaging the target audience. However, this does NOT mean it is more effective financially (although it likely will be).

**Cost Per Order (CPO)** or **Cost Per Purchase (CPP)** – Finally, we get to the financial certainties. At a certain point, the organization will need to financially justify advertising campaigns. This is not always easy, as attributing a campaign to a purchase is not always completely clear. However, a CPO or CPP will track and measure users throughout the channel to see which advertising campaigns ultimately result in a purchase. This CPP must be lower than the margin per customer purchase, otherwise the campaign is losing money (at least in the short run).



In addition to these common methods, focus groups, interviews, and other research methods can be utilized to measure the effectiveness of a promotion. Only focusing on sales as the key indicator of a successful campaign can be misleading as many factors can impact sales.

## IV. You Try It!

This interactive covers all sections of chapter 10.





An interactive H5P element has been excluded from this version of the text. You can view it online here:

<https://iu.pressbooks.pub/mktgwip/?p=375#h5p-22>

<sup>1</sup>Melanie Wells. “Many Clients Prize Agency Efficiency over Creativity,” Advertising Age, May 16, 1994, p.28



# CHAPTER II: DIGITAL MARKETING

## Learning Objectives

1. Students will understand the role of digital marketing in the formation of marketing strategy
2. Students will be able to list and describe the most common types and characteristics of digital, social, and mobile marketing
3. Students will be able to explain the process for creating an effective digital, social, and mobile marketing campaign

## Introduction

Most people will agree that digital marketing has changed marketing in many ways. Unfortunately, many people also believe that marketing is all about digital marketing. That's not the case. Marketing is about strategy, as we have focused on throughout this text. Digital marketing is an extremely valuable tool to help us be more effective in preparing for and implementing that strategy.

Digital marketing is any marketing that uses electronic devices and can be used by marketing specialists to convey promotional messaging and measure its impact through the customer journey. In practice, digital marketing typically refers to marketing campaigns that appear on a computer, phone, tablet, or other device. It can take many forms, including online video, display ads, search engine marketing, paid social ads, email campaigns and social media posts.

Digital marketing has created numerous opportunities for marketers to target their market more specifically, to gather valuable research information, and to provide more customized customer contacts. The affordability of digital marketing has proven to be a boon for small companies that have struggled with the costs of traditional promotion methods. In view of all the positive advancements digital marketing has created, we need to recognize that ethical and legal challenges have emerged as well. Assuring customer privacy and protection of their information from unauthorized usage, has proven to be a challenge.

In this chapter a preliminary look at digital, social, and mobile marketing will transpire. An in-depth look is beyond the scope of this chapter as the variance and technical advances take more time than is available in an introduction to marketing course.

# II.I Characteristics and Types of Digital, Social, and Mobile (DSM) Marketing

## I. Characteristics of Digital Marketing

Digital marketing is defined as the use of internet-connected devices such as computers, tablets, smartphones, and game consoles to engage consumers with online advertising. One of the key principles of digital marketing is creating an easy, seamless, and convenient user experience for target audiences. Moreover, eliminating the amount of consumer effort needed to act on digital content helps establish an ongoing, automated relationship between brands and their audience.

### A. Pull Digital Marketing

Pull digital marketing is characterized by consumers actively seeking marketing content. Consumers might use tactics including search engines, email newsletters, text messaging, or web feeds to search for brand information. Push technologies deliver content as it becomes available and are better targeted to consumer demographics. However, microtargeting



**Blog website:** Digital marketers often incorporate blogs and other social media elements in their corporate websites to encourage web traffic.

tends to produce smaller audiences, and results in higher creation and distribution costs.

Websites, blogs, and streaming media (audio and video) are examples of pull digital marketing. In each of these channels, users must navigate to the website to view the content. It is up to marketers to create digital content – text, images, videos, and audio – that is relevant and captivating enough to attract web visitors, increase page views, and improve search engine rankings.

Building online communities on related social media sites such as Facebook and YouTube is another pull tactic used by brands to increase the number of interactions with prospects and customers. Companies frequently use their corporate websites and blogs to build authority and credibility in their field, as well as improve their search engine optimization. Major search engines such as Google often index sites based on the quality and relevancy of their content. Thus, the higher a brand is ranked in Google, the more likely web users will find their website.

## B. Push Digital Marketing

Push digital marketing occurs when marketers send messages with or without the consent of the recipients. These digital marketing tactics include display advertising on websites and blogs. Email, text messaging, and web feeds are also considered push digital marketing when the recipient has not agreed to receiving the marketing message. This practice is also known as spamming. The opposite of spamming is **permission marketing**, which uses technologies with the prior permission of the recipient. Marketers obtain consumer permission to send communications via subscriptions or written consent.

Subscriptions provide the opportunity to push content to fans and followers, prompting them to visit the brand's video channel, social media page, or corporate website. Text and video press

releases can also be distributed easily through online distribution services. Journalists, bloggers, and other content producers visit these sites for news stories. Brands can gain web traffic from media publications and blogs that use their press releases as information sources.

## II. Characteristics and Types of Social Marketing

Digital media uses technology and mobility to provide an interactive means of communication among people, organizations, and communities who are interconnected and interdependent. Many channels and vehicles are available for social media just as there are many different television shows and magazines. With changing technology, new vehicles are added frequently.

With over half of Americans participating in social networks, people and organizations who don't participate may be at a disadvantage with some groups in society. Not only does the majority of the population in the United States have a profile on a social network, but at least one-third of those people access the sites multiple times a day. Not only is social media popular for keeping in touch with friends, but companies use social media to promote their brands and as a tool for recruiting and hiring. People follow companies and brands on social media, especially on Facebook, whereas LinkedIn generates more job referrals. Just as companies are allocating more of their promotion budget to social media, they are also increasing their expenditures on social recruiting.

Social media is complex and rapidly changing. While there is some overlap between personal and business, one way to improve the understanding of social media is to think about social media zones. Social media zones include social communities, social publishing,

social entertainment, and social commerce. Think about the different ways you use social media and which zones you utilize. You probably use all of the zones.

There are several types of online platforms classified under the vast umbrella of social media. These categories include:

**Social Networks:** Social networking websites allow users to build web pages featuring personal portfolios and interests. These pages are used to connect with friends, colleagues and other users in order to share media, content and communications. Some of the most popular current forms of social media are social networking websites such as Facebook, Instagram, TicTok. Facebook alone surpassed over one billion active monthly users over a decade ago. The usage of all the platforms has increased monumentally since then.

Visual social networks are becoming more popular, with Instagram having now surpassed Twitter in its amount of users. Data has shown that a tweet that includes an image has a 150% more chance of being shared. There are also new networks such as Snapchat and Periscope, that are slowly growing in terms of popularity, especially with the younger generations.

**Web blogs:** Some of the oldest and most popular forms of social media are blogs. Blogs are often viewed as online journals that order content chronologically, or by date, month, year and category. Users can also maintain “vlogs,” or video blogs, featuring shared or homemade videos. Blogging websites include WordPress, Blogger and Tumblr.

**Microblogs:** Microblogs are blogging tools that feature short posts, as opposed to journal-style posts. Users are usually restricted to posting a few lines of text, or uploading individual images and videos. Microblogging is particularly common for posting quick updates and distributing content via mobile devices. Notable microblogging sites include Twitter and Tumblr. However, social networks such as Facebook, Google+, LinkedIn and others also have their own microblogging features.

**Wikis:** Wiki websites allow a community of people to add and edit

content in a community-based database. One of the best-known wikis is Wikipedia.

**Podcasts:** Podcasts are audio and video files available through subscription services such as Apple iTunes. The term “podcast” is a neologism derived from “broadcast” and “pod” (as in “iPod”), since Podcasts are often listened to on portable media players.

Other types of social media include the following:

- Rating and review sites (e.g. Yelp)
- Social bookmarking or social tagging features (e.g. Digg; Stumble Upon)
- Forums and discussion boards (e.g. Yahoo!; Answers)
- Virtual social worlds (e.g. Second Life; World of Warcraft)
- Music and audio sharing (e.g. Spotify; Pandora Radio)

Social media can also be classified by their ability to facilitate certain social functions. These social functions often involve identity, conversation, sharing, presence, relationships, reputation, and groups. Kaplan and Haenlein created a classification scheme using six different types of social media– collaborative projects (e.g. Wikipedia), blogs and microblogs (e.g. Twitter), content communities (e.g. YouTube), social networking sites (e.g. Facebook), virtual game worlds (e.g. World of Warcraft), and virtual social worlds (e.g. Second Life).

**Search engine optimization (SEO)** is the practice of employing various strategies to allow websites to rank highly in Search Engine Results Pages (SERPs). Paid search engine advertising increases a website’s visibility and reach by displaying links to the website’s landing pages at the top or bottom of a SERP. In contrast, SEO increases a website’s visibility and reach by allowing the website to rank well organically in search results when search engine users search for certain key phrases and terms.

Some SEO strategies include link building, optimization of onsite content with targeted keywords, optimization of meta descriptions with targeted keywords, and optimization of blog content with

targeted keywords. Most search engines work to find users websites based on their searches using complex algorithms that assess a website's authority, using a wide variety of strategies to rate the overall quality and usefulness of a site's content. SEO strategists aim to boost a site's authority in the eyes of search engines by creating high quality content that uses relevant key terms which will be linked to by other sites.

Local SEO is an emerging trend in the SEO realm. Local SEO involves creating content that targets a particular geographical demographic. It also includes the use of local listing sites to help establish a website's presence in search results that are tailored to local users.

### III. Characteristics and Types of Mobile Marketing

Mobile marketing is any marketing activity conducted through a ubiquitous network to which consumers are constantly connected using a personal mobile device. Marketing communications on mobile devices is generally carried out via text messages or applications (apps). Since consumers typically carry their mobile devices with them throughout the day, mobile marketing presents a cost-effective way for brands to deliver targeted messaging across different platforms.

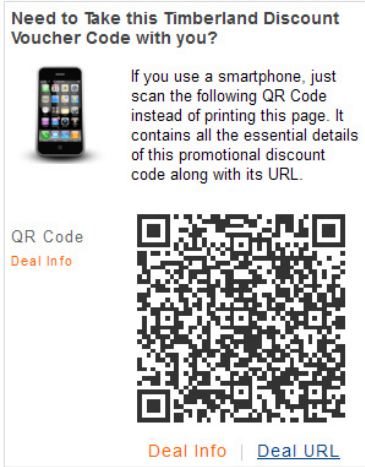
## A. Types of Mobile Marketing

One of the most popular forms of mobile advertising is text messaging. During the early 2000s, marketing through cell phones' Short Message Service (SMS) became increasingly common in Europe and parts of Asia. Consequently, SMS marketing has become a legitimate advertising channel in both developed and developing economies around the world. On average, it is estimated that SMS messages are read within four minutes after delivery to a mobile device. This makes mobile marketing highly attractive to brands looking for marketing communication channels with high lead-to-conversion rates.

Unlike SMS, Multimedia Message Service (MMS) mobile marketing combines the delivery of images, text, audio and video. Nearly all new phones with a color screen are capable of sending and receiving standard MMS messages. Brands are able to both send and receive rich content through MMS A2P (application-to-person) mobile networks to mobile subscribers. In some networks, brands are also able to sponsor messages sent P2P (person-to-person).

Push notifications have become popular due to their use on smartphones using iOS and Android operating systems. These notifications appear at the top of the device's screen and serve as efficient mechanisms for communicating directly with end-users. Although it can potentially be viewed as interruptive by the end user, its long-term costs are lower than SMS marketing.

Game mobile marketing provides additional opportunities for



**QR Code Promotion:** These are increasingly being used in mobile advertising campaigns to increase user engagement.

brands looking to deliver promotional messaging within mobile games. Some companies sponsor entire games to drive consumer engagement, a practice known as *mobile advergaming* or *ad-funded mobile gaming*.

Mobile content advertising schemes provided by the likes of Yahoo! and Google allow brands to purchase keywords specifically for mobile advertisements. Additionally, web forms on web pages can be used to integrate with mobile texting sources for reminders about meetings, seminars and other important events for users who are away from their laptop or desktop computers.

Quick response (QR) codes have also gained in popularity after first being introduced in European and Asian mobile markets. Acting as a visual hyper-link to a page, QR codes enable users to jump to a mobile optimized offer page. QR codes only began to be used in mobile advertising in North America from 2011. Companies recognized the technology as a very powerful tool for initiating consumer engagement at a time when the marketing message is likely triggering its most emotional response — the impulse moment — for the end user.

In addition to QR codes, other tools used by mobile marketers to improve targeted messaging and reduce marketing costs include location-based services, Bluetooth technology, and proximity systems such as Short Message Service – Cell Broadcast (SMS-CB).

## **B. Advantages and Disadvantages of Mobile Marketing**

Some of the key advantages of mobile marketing are the close proximity of owners' mobile devices, as well as the habitual nature of using cell phones, smartphones and computer tablets. Distributing promotional and advertising messages customized according to the recipient's location, geography and personal

interests through wireless networks makes mobile marketing highly cost-effective given the potential reach and scope of the audience.

However, mobile marketing practices present challenges around privacy concerns over user data. Push marketing tactics – mobile advertising that is sent without consumers' required permission – have caused privacy violations. Although mobile advertising has become increasingly popular with the growing use of tablets and smartphones, numerous concerns have emerged due to the personal nature and close proximity of mobile devices to users. Some of the major concerns around privacy include mobile spam, personal identification, location information and wireless security.

Industry bodies including the Interactive Advertising Bureau and Mobile Marketing Association have established guidelines to prevent SPAM messages and the practice of carriers selling member databases to third parties.

However, these self-regulatory rules are also in place to support marketers looking to incorporate mobile marketing into their larger marketing communications strategies.

# 11.2 Strategy Development for Digital, Social, and Mobile (DSM) Marketing

## I. Strategy Development

Earlier in this text we learned about the use of AIDA (attention-interest-desire-action) in the development of a promotional strategy. For DSM marketing, we are going to employ a version of AIDA keeping the same general focus.

### A. Attention – Excite

Consumers are overwhelmed with text, images, and videos. They are everywhere, all the time. Competing for the audience's attention and awareness is difficult and needs a creative approach to excite the customer. This might be done through content, but that can be easily copied and will need to be changed often. Another way to generate that enthusiasm is to use a direct approach. The more customized and targeted the strategy, the more impact it is likely to have. As mentioned, there are many other messages competing for the target market's attention. This competition is beyond messaging related to similar products. This is a competition for awareness and focus. A creative way of capturing the target market's attention and getting them excited to know more about our brand or offering, is mandatory.

## B. Interest – Educate

To capture the interest of our target market, we need to present our value proposition. In other words, why should they consider our offering over that of the competition? Being able to articulate and demonstrate our competitive advantage will educate the potential customer so they feel comfortable with their purchase decision. This education may be factual and focus on the functionality, pricing, or availability of the product. The education may be image based as well as we try to appeal to the customer on a more emotional level.

## C. Desire – Experience

The benefit of DSM campaigns is that they are easily accessible and more depth can be given by just clicking. By getting the potential customer to click (or comment, follow, like, etc), they are signaling their interest and are open to receiving more information. This experience is what can turn their educated interest into more of a desire. The point of the experience is to jump off of the screen and become 'real' for the customer so they want to make a purchase or an additional commitment.

## D. Action – Engage

DSM is different than other types of marketing strategy as the strength of DSM occurs due to the interaction with the customers. As you have learned previously, when customers are in the decision making process, they value the opinions of friends, acquaintances, family, and others that they view as being objective. DSM facilitates interactions through public postings, conversations and active

responses. Companies need to manage these interactions in a strategic manner. We don't want to limit anyone's opinion but we want to guide them in the direction that highlights our objectives. To engage with the customer, we need to listen to them, analyze the feedback and interactions, and react immediately.

**Listen** – the customer speaks to companies in many ways including reactions to posts, hashtags, reviews, etc. This should not be ignored. Companies can gain valuable insights on customer perceptions of their brand, competitors brands, new opportunities, and emerging problems. Listening takes a deliberate effort from someone assigned to this task. It needs to be taken seriously. Many social media platforms have programs to help businesses do just that as discussed next.

**Analyze** – to understand not only what customers are saying but to also understand the effectiveness of their DSM strategy, analytics need to be utilized. There are software programs, such as Google Analytics and Salesforce, that provide valuable insights. Various platforms will provide analytics to their business customers for a fee. These analytics cover everything from hits, clicks, page views, keyword analysis to descriptions of the active users including demographics, time of usages, frequency of usage, and other sites of frequent interaction. Marketing analytics has been growing in importance and does not show any sign of abating soon. Students planning on a career in marketing should plan on taking a marketing analytics course or achieving certifications on their own.

**Do** – Now that we have listened to the customer and analyzed the data, we need to act on it. An unfortunate outcome for some companies is they skip this step. They get their data, look at it, and move on. While a company may be successful without acting on the data, they are setting themselves up for problems down the road. The type of action taken includes determining the type of content that achieves our objectives with specific targets, determining which platforms can be cut back on and which should be increased, and developing a new strategy based on the data. Reacting to the data will keep campaigns fresh and enticing.

## II. The Marketing Mix in the Digital Age

The Internet has changed the way business is done in the current world. Consequently, the variables of marketing segmentation, targeting and positioning are addressed differently. Although the way new products and services are marketed have changed, the primary aim of business in bringing economic and social values have not. Indeed, all businesses seek to implement a marketing mix that increases revenues and profit, expands brand awareness, and builds customer bases. Nevertheless, marketers must take into account the following shifts, which will inevitably effect their product, promotional and pricing strategies:

- The shift from media advertising to multiple forms of communication.
- The shift from mass media to more specialized (niche) media, which are centered on specific target audiences.
- The shift from a manufacturer-dominated market to a retailer-dominated, consumer-controlled market.
- The shift from general-focus advertising and marketing to data-based marketing.
- The shift from low agency accountability to greater agency accountability, particularly in advertising.
- The shift from traditional compensation to performance-based compensation (increased sales or benefits to the company).
- The shift from limited Internet access to 24/7 Internet availability and access to goods and services.

Each element of the marketing mix must coordinate with other elements in the marketing program to ensure maximum reach and impact.

User-generated content, one of the key features of social media websites, provides a direct communication channel between buyers and sellers. Products and services are meant to satisfy customer

wants and needs. Comments, 'Likes', and other feedback mechanisms make it even easier for satisfied or disgruntled customers to voice their opinion to not only brands, but also to current and prospective customers.

## Product

Marketing organizations must be ready to alter product features and ingredients as dictated by changes in consumer perception, as well as competitive and economic environments. However, product changes can be prompted by social media activity from stakeholders outside a brand's consumer base. Greenpeace launched an attack on Nestlé's use of palm oil in their products and its impact on the climate and natural ecosystems. When Nestlé attempted to respond to the criticism via Facebook, the public backlash was severe. As a result of the viral publicity, Nestlé subsequently increased auditing efforts in its supply chain, and promised to cancel contracts with any firm found to be chopping down rainforests to produce the palm oil used in its products.

## Placement

Placement or distribution moves products from the producer to the consumer. With the Internet and social media websites, consumers now have access to more channels than ever to research, purchase and evaluate products. Both small and major brands offer e-commerce websites that allow web users to browse products and share their 'wish lists' or purchases with friends across social media websites. Amazon.com, the world's largest online retailer, allows third-party merchants to advertise their goods on the company's e-commerce site. This not only allows smaller retailers to take

advantage of Amazon.com's massive audience, but also utilize the Amazon.com fulfillment centers strategically placed near airports.

## Pricing

Pricing—the primary means by which customer judge the attractiveness of a product or service—can also be affected due to wider access to customers via online channels. Amazon.com is primarily a retail site with a sales revenue model and generates revenue by taking a small percentage of the sale price of each item that is sold through its website. Amazon also allows companies to advertise their products by paying a fee to be listed as featured products.

## Promotion

Promotion is probably the marketing mix element most impacted by social media. In essence, social media acts as a promotional element or communication channel used to reach customers. Promotional activities include advertising (by using different media), sales promotion (sales and trades promotion), and personal selling activities. It also includes sponsorship marketing, direct marketing, database marketing and public relations. Social networking sites can act as secondary or tertiary corporate sites that integrate and link these promotional elements back to the brand's messaging. Content published by social media users can also feed into various communication channels (e.g. crowdsourcing ideas for a television commercial) and used to further expand a brand's reach and presence.

## 11.3: Other Uses and Future Developments

### I. Trends in Social Media

Real-time and location-based digital activities are key trends for marketers to understand as they try to develop image, create awareness, and increase sales.

As the increase in popularity of social networking is on a constant rise, new uses for the technology are constantly being devised. At the forefront of emerging trends in social networking sites is the concept of real-time web and location-based web. Real-time allows users to contribute content, which is then broadcast as it is being uploaded, a concept much akin to live radio and television broadcasts.

Twitter set the trend for real-time services, wherein users can broadcast to the world what they are doing, or what is on their minds within a 140-character limit. Facebook soon followed suit with its “Live Feed” where users’ activities are streamed as soon as it happens. While Twitter focuses on words, Instagram, another real-time service, focuses on photo sharing wherein users can update their streams with photos while at an event or after. Facebook, however, remains the largest photo sharing site, with Instagram being a close second. TikTok is catching up quickly.

Companies have begun to merge business technologies and solutions, such as cloud computing, with social networking concepts. Instead of connecting individuals based on social interest, companies are developing interactive communities that connect individuals based on shared business needs or experiences. Many provide specialized networking tools and applications that can be

accessed via their websites, such as LinkedIn. Others companies, such as Monster.com, have been steadily developing a more “socialized” feel to their career center sites to harness some of the power of social networking sites.

One popular use for this new technology is social networking between businesses. Companies have found that social networking sites such as Facebook and Twitter are great ways to build their brand image. According to Jody Nimetz, author of Marketing Jive, there are five major uses for businesses and social media: create brand awareness, manage their online reputation, recruit employees, learn about new technologies and competitors, and generate leads for potential prospects. These companies are able to drive traffic to their own online sites while encouraging their consumers and clients to have discussions on how to improve or change products or services. These social networking trends create fun ways for consumers and companies to interact with mutually beneficial outcomes. Consumers get better products and companies get the information they need to attract more consumers.

## II. Research using Digital Media

The field of Internet research is relatively new and evolving. Online research methods enable researchers to use increasingly sophisticated digital tools to collect data via the Internet. Thus, the practice is also referred to as Internet research, Internet science, or iScience. Many of these online research methods are related to existing research methodologies, but re-invent and re-think them within the scope of digital technologies, rules and media associated with the internet. The growth and rapid adoption of social media technologies has introduced a new level of complexity and opportunity for digital researchers. Inclusion of social media research can provide particularly unique insights into consumer and societal segments.

# Application of Digital Media in Research

Digital media including images, videos and audio can prove valuable sources for Internet researchers. Specific types of research methods that incorporate digital media include:

- Online ethnography
- Online focus groups
- Online interviews
- Online questionnaires
- Web-based experiments
- Online clinical trials



**Digg Website:** Social bookmarking sites such as Digg are used to gather research on different target markets.

## Advantages of Digital Research

Market research is increasingly making use of developments in Web 2.0 technologies and online communities. Social media analytics allow brands to efficiently collect and analyze qualitative research on user interaction with images, video, podcasts and other digital media. Although the open and collaborative nature of content communities offer opportunities for research, companies also utilize private online communities focused on individual brands or customer segments. These private communities can engage customer groups or target consumers who might be difficult to reach using traditional offline tactics. Companies are able to collect and aggregate this consumer information to define segments of homogeneous consumers. To supply targeted and relevant product

offerings, the data is further segmented using in-house or third-party databases; personalization techniques; or opt-ins from consumers themselves.

Brands also benefit from online communities by having them on-hand to respond to questions, test hypotheses and observe trials in real-time. Digital technologies can quickly adapt to an organization's research needs, while keeping pace with internal development processes. Social media and digital platforms also produce a consumer feedback loop where brands can continually check new ideas, such as product development, from inception to launch.

### III. You Try It!



*An interactive H5P element has been excluded from this version of the text. You can view it online here:*

<https://iu.pressbooks.pub/mktgwip/?p=401#h5p-23>