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MARKETING MANAGEMENT

CONTENTS

UNIT-1 MARKETING: CREATING AND CAPTURING CUSTOMER VALUE

CONTENTS

INTRODUCTION

Marketing, more than any other business function, deals with customers. Although we will soon explore more-detailed definitions of marketing, perhaps the simplest definition is this one: Marketing is managing profitable customer relationships. The twofold goal of marketing is to attract new customers by promising superior value and keep and grow current customers by delivering satisfaction.

Marketing Defined

What is marketing? Many people think of marketing as only selling and advertising. We are bombarded every day with TV commercials, catalogs, sales calls, and e-mail pitches. However, selling and advertising are only the tip of the marketing iceberg. Today, marketing must be understood not in the old sense of making a sale—"telling and selling"—but in the new sense of satisfying customer needs. If the marketer understands consumer needs; develops products that provide superior customer value; and prices, distributes, and promotes them effectively, these products will sell easily. In fact, according to management guru Peter Drucker, "The aim of marketing is to make selling unnecessary."3 Selling and advertising are only part of a larger "marketing mix"—a set of marketing tools that work together to satisfy customer needs and build customer relationships.

Broadly defined, marketing is a social and managerial process by which individuals and organizations obtain what they need and want through creating and exchanging value with others. In a narrower business context, marketing involves building profitable, valueladen exchange relationships with customers. Hence, we define marketing as the process by which companies create value for customers and build strong customer relationships in order to capture value from customers in return.4

The Marketing Process

In this unit and the next, we will examine the steps of this simple model of marketing. In this unit, we review each step but focus more on the customer relationship steps— understanding customers, building customer relationships, and capturing value from customers. In Unit 2, we look more deeply into the second and third steps—designing marketing strategies and constructing marketing programs.

Marketing

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

Understanding the Marketplace and Customer Needs

As a first step, marketers need to understand customer needs and wants and the marketplace in which they operate. We examine five core customer and marketplace concepts: (1) needs, wants, and demands; (2) market offerings (products, services, and experiences); (3) value and satisfaction; (4) exchanges and relationships; and (5) markets.

Customer Needs, Wants, and Demands The most basic concept underlying marketing is that of human needs. Human **needs** are states of felt deprivation. They include basic physical needs for food, clothing, warmth, and safety; social needs for belonging and affection; and individual needs for knowledge and self expression.

Marketers did not create these needs; they are a basic part of the human makeup. Wants are the form human needs take as they are shaped by culture and individual personality. An American needs food but wants a Big Mac, french fries, and a soft drink. A person in Papua New Guinea needs food but wants taro, rice, yams, and pork. Wants are shaped by one’s society and are described in terms of objects that will satisfy those needs. When backed by buying power, wants become demands. Given their wants and resources, people demand products with benefits that add up to the most value and satisfaction. Outstanding marketing companies go to great lengths to learn about and understand their customers’ needs, wants, and demands. They conduct consumer research and analyse mountains of customer data. Their people at all levels—including top management—stay close to customers. For example, retailer Cabela’s vice-chairman, James W. Cabela, spends hours each morning reading through customer comments and hand-delivering them to each department, circling important customer issues. At Zappos, CEO Tony Hsieh uses Twitter to build more personal connections with customers and employees. Some 1.6 million people follow Hsieh’s Twitter feed. And at P&G, executives from the chief executive officer down spend time with consumers in their homes and on shopping trips. P&G brand managers routinely spend a week or two living on the budget of low-end consumers to gain insights into what they can do to improve customers' lives.

Market Offerings—Products, Services, and Experiences

Consumers' needs and wants are fulfilled through market offerings—some combination of products, services, information, or experiences offered to a market to satisfy a need or a want. Market offerings are not limited to physical products. They also include services— activities or benefits offered for sale that are essentially intangible and do not result in the ownership of anything. Examples include banking, airline, hotel, tax preparation, and home repair services. More broadly, market offerings also include other entities, such as persons, places, organizations, information, and ideas. For example, the "Pure Michigan" campaign markets the state of Michigan as a tourism destination that "lets unspoiled nature and authentic character revive your spirits." And the U.S. Forest Service's "Reconnecting Kids with Nature" campaign markets the idea of encouraging urban young people to explore the joys of nature firsthand. Its DiscoverTheForest.org Web site helps children and their parents figure out where to go outdoors and what to do there.6

Market offerings

Some combination of products, services, information, or experiences offered to a market to satisfy a need or want. Marketing is all about creating value for customers. So, as the first step in the marketing process, the company must fully understand consumers and the marketplace in which it operates.

Many sellers make the mistake of paying more attention to the specific products they offer than to the benefits and experiences produced by these products. These sellers suffer from marketing myopia. They are so taken with their products that they focus only on existing wants and lose sight of underlying customer needs.7 They forget that a product is only a tool to solve a consumer problem. A manufacturer of quarter-inch drill bits may think that the customer needs a drill bit. But what the customer really needs is a quarter-inch hole. These sellers will have trouble if a new product comes along that serves the customer's need better or less expensively. The customer will have the same need but will want the new product. Smart marketers look beyond the attributes of the products and services they sell. By orchestrating several services and products, they create brand experiences for consumers. For example, you don't just watch a NASCAR race; you immerse yourself in the exhilarating, high-octane NASCAR experience. Similarly, HP recognizes that a personal computer is much more than just a collection of wires and electrical components. It's an intensely personal user experience. As noted in one HP ad, "There is hardly anything that you own that is more personal. Your personal computer is your backup brain. It's your life. . . . It's your astonishing strategy, staggering proposal, dazzling calculation. It's your autobiography, written in a thousand daily words."

Customer Value and Satisfaction

Consumers usually face a broad array of products and services that might satisfy a given need. How do they choose among these many market offerings? Customers form expectations about the value and satisfaction that various market offerings will deliver and buy accordingly. Satisfied customers buy again and tell others about their good experiences.

Dissatisfied customers often switch to competitors and disparage the product to others. Marketers must be careful to set the right level of expectations. If they set expectations too low, they may satisfy those who buy but fail to attract enough buyers. If they set expectations too high, buyers will be disappointed. Customer value and customer satisfaction are key building blocks for developing and managing customer relationships.

EVOLUTION OF MARKETING

Exchange is the act of obtaining a desired object from someone by offering something in return. In the broadest sense, the marketer tries to bring about a response to some market offering. The response may be more than simply buying or trading products and services. Apolitical candidate, for instance, wants votes, a church wants membership, an orchestra wants an audience, and a social action group wants idea acceptance.

Markets

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

Marketing means managing markets to bring about profitable customer relationships.

However, creating these relationships takes work. Sellers must search for buyers, identify their needs, design good market offerings, set prices for them, promote them, and store and deliver them. Activities such as consumer research, product development, communication, distribution, pricing, and service are core marketing activities. Although we normally think of marketing as being carried out by sellers, buyers also carry out marketing. Consumers market when they search for products, interact with Marketing myopia- he mistake of paying more attention tothe specific products a company offers than to the benefits and experiences produced by these products.

Designing a Customer-Driven Marketing Strategy

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

To design a winning marketing strategy, the marketing manager must answer two important questions: What customers will we serve (what's our target market)? And How can we serve these customers best (what's our value proposition)?

Selecting Customers to Serve

The company must first decide whom it will serve. It does this by dividing the market into segments of customers (market segmentation) and selecting which segments it will go after (target marketing). Some people think of marketing management as finding as many customers as possible and increasing demand. But marketing managers know that they cannot serve all customers in every way. By trying to serve all customers, they may not serve any customers well. Instead, the company wants to select only customers that it can serve well Marketing management - The art and science of choosing target markets and building profitable relationships with them.

Major environmental forces

Marketing
- intermediaries
- Competitors
- Company
- Suppliers
- Modern Marketing System

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

The Production Concept

The **production concept** holds that consumers will favor products that are available and highly affordable. Therefore, management should focus on improving production and distribution efficiency. This concept is one of the oldest orientations that guides sellers.

The production concept is still a useful philosophy in some situations. For example, computer maker Lenovo dominates the highly competitive, price-sensitive Chinese PC market through low labor costs, high production efficiency, and mass distribution. However, although useful in some situations, the production concept can lead to marketing myopia. Companies adopting this orientation run a major risk of focusing too narrowly on their own operations and losing sight of the real objective—satisfying customer needs and building customer relationships.

The Product Concept

The **product concept** holds that consumers will favor products that offer the most in quality, performance, and innovative features. Under this concept, marketing strategy focuses on making continuous product improvements. Product quality and improvement are important parts of most marketing strategies. However, focusing only on the company's products can also lead to marketing myopia. For example, some manufacturers believe that if they can "build a better mousetrap, the world Value propositions: Smart car suggests that you "open your mind"—"Sorry, big guy. Efficiency is in these days."

Production concept

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

Product concept

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

The Selling Concept

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

The Marketing Concept

The **marketing concept** holds that achieving organizational goals depends on knowing the needs and wants of target markets and delivering the desired satisfactions better than competitors do. Under the marketing concept, customer focus and value are the paths to sales and profits. Instead of a product-centered "make and sell" philosophy, the marketing concept is a customer-centered "sense and respond" philosophy. The job is not to find the right customers for your product but to find the right products for your customer's .takes an inside-out perspective. It starts with the factory, focuses on the company's existing products, and calls for heavy selling and promotion to obtain profitable sales. It focuses primarily on customer conquest—getting short-term sales with little concern about who buys or why.

In contrast, the marketing concept takes an outside-in perspective. As Herb Kelleher, the colorful founder of Southwest Airlines puts it, "We don't have a marketing department; we have a customer department." The marketing concept starts with a well-defined market, focuses on customer needs, and integrates all the marketing activities that affect customers. In turn, it yields profits by creating lasting relationships with the right customers based on customer value and satisfaction.

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

The Societal Marketing Concept

The **societal marketing concept** questions whether the pure marketing concept overlooks possible conflicts between consumer short-run wants and consumer long-run welfare. Is a firm that satisfies the immediate needs and wants of target markets always doing what's best for its consumers in the long run? The societal marketing concept holds that marketing strategy should deliver value to customers in a way that maintains or improves both the consumer's and society's well-being. It calls for sustainable marketing, socially and environmentally responsible marketing that meets the present needs of consumers and businesses while also preserving or enhancing the ability of future generations to meet their needs. Consider today's bottled water industry. You may view bottled water companies as offering a convenient, tasty, and healthy product. Its packaging suggests "green" images of pristine lakes and snow-capped mountains.Yet making, filling, and shipping billions of plastic bottles generates huge amounts of carbon dioxide emissions that contribute substantially to global warming. Further, the plastic bottles pose a substantial recycling and solid waste disposal problem. Thus, in satisfying short-term consumer wants, the bottled water industry may be causing environmental problems that run against society's long-run interests.

Preparing an Integrated Marketing Plan and Program

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

The major marketing mix tools are classified into four broad groups, called the four Ps of marketing: product, price, place, and promotion. To deliver on its value proposition, the firm must first create a need-satisfying market offering (product). It must decide how much it will charge for the offering (price) and how it will make the offering available to target consumers (place). Finally, it must communicate with target customers about the offering and persuade them of its merits (promotion). The firm must blend each marketing mix tool into a comprehensive integrated marketing program that communicates and delivers the intended value to chosen customers. We will explore marketing programs and the marketing mix in much more detail in later units.

Building Customer Relationships

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

Customer Relationship Management

Customer relationship management is perhaps the most important concept of modern marketing. Some marketers define it narrowly as a customer data management activity (a practice called CRM). By this definition, it involves managing detailed information about individual customers and carefully managing customer "touchpoints" to maximize customer loyalty. We will discuss this narrower CRM activity in Unit 4 when dealing with marketing information. Most marketers, however, give the concept of customer relationship management a broader meaning. In this broader sense, customer relationship management is the overall process of building and maintaining profitable customer relationships by delivering superior customer value and satisfaction. It deals with all aspects of acquiring, keeping, and growing customers.

Relationship Building Blocks: Customer Value and Satisfaction

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

Customer Value. Attracting and retaining customers can be a difficult task. Customers often face a bewildering array of products and services from which to choose. A customer buys from the firm that offers the highest **customer-perceived value**—the customer's evaluation of the difference between all the benefits and all the costs of a market offering relative to those of competing offers. Importantly, customers often do not judge values and costs "accurately" or "objectively." They act on perceived value.

To some consumers, value might mean sensible products at affordable prices, especially in the aftermath of recent recession. To other consumers, however, value might mean paying more to get more. For example, despite the challenging economic environment, GE recently introduced its new Profile washer-and-dryer set, which retails for more than $2,500 (more than double the cost of a standard washer-and-dryer set). Profile ads feature stylish machines in eye-catching colors, such as cherry red. But the ads also focus on down-to-earth practicality. They position the Profile line as a revolutionary new "clothes care system," with technology that allocates the optimal amount of soap and water per load and saves money by being gentle on clothes, extending garment life. Are Profile washers and dryers worth the much higher price compared to less expensive appliances? It's all a matter of personal value perceptions. To many consumers, the answer is no. But to the target segment of styleconscious, affluent buyers, the answer is yes.10

Customer satisfaction depends on the product's perceived performance relative to a buyer's expectations. If the product's performance falls short of expectations, the customer is dissatisfied. If performance matches expectations, the customer is satisfied. If performance exceeds expectations, the customer is highly satisfied or delighted. Outstanding marketing companies go out of their way to keep important customers satisfied. Most studies show that higher levels of customer satisfaction lead to greater customer loyalty, which in turn results in better company performance. Smart companies aim to delight customers by promising only what they can deliver and then delivering more than they promise. Delighted customers not only make repeat purchases but also become willing marketing partners and "customer evangelists" who spread the word about their good experiences to others.

Customer Relationship Levels and Tools

Companies can build customer relationships at many levels, depending on the nature of the target market. At one extreme, a company with many low-margin customers may seek to develop basic relationships with them. For example, Nike does not phone or call on all of its consumers to get to know them personally. Instead, Nike creates relationships through brand-building advertising, public relations, and its Web site (www.Nike.com). At the other extreme, in markets with few customers and high margins, sellers want to create full partnerships with key customers. For example, Nike sales representatives work closely with the Sports Authority, Dick's Sporting Goods, Foot Locker, and other large retailers. In between these two extremes, other levels of customer relationships are appropriate.

Beyond offering consistently high value and satisfaction, marketers can use specific marketing tools to develop stronger bonds with customers. For example, many companies offer frequency marketing programs that reward customers who buy frequently or in large amounts. Airlines offer frequent-flyer programs, hotels give room upgrades to their frequent guests, and supermarkets give patronage discounts to "very important customers." For example, JetBlue Airways offers its TrueBlue members frequent-flyer points they can use on any seat on any JetBlue flight with no blackout dates. JetBlue promises its members "More award flights. More points. More to love." The airline's "Be True" marketing campaign even highlights real TrueBlue members who are nominated by JetBlue crewmembers for their TrueBlue dedication to inspiring causes.

Relating with More Carefully Selected Customers

Few firms today still practice true mass marketing—selling in a standardized way to any customer who comes along. Today, most marketers realize that they don't want relationships with every customer. Instead, they target fewer, more profitable customers. "Not all customers are worth your marketing efforts," states one analyst. "Some are more costly to serve than to lose." Adds another marketing expert, "If you can't say who your customers aren't, you probably can't say who your customers are."

Relating More Deeply and Interactively

Beyond choosing customers more selectively, companies are now relating with chosen customers in deeper, more meaningful ways. Rather than relying on one-way, mass-media messages only, today's marketers are incorporating new, more interactive approaches that help build targeted, two-way customer relationships.

Two-Way Customer Relationships. New technologies have profoundly changed the ways in which people relate to one another. New tools for relating include everything from e-mail, Web sites, blogs, cell phones, and video sharing to online communities and social networks, such as Facebook, YouTube, and Twitter.

This changing communications environment also affects how companies and brands relate to customers. The new communications approaches let marketers create deeper customer involvement and a sense of community surrounding a brand—to make the brand a meaningful part of consumers' conversations and lives. "Becoming part of the conversation between consumers is infinitely more powerful than handing down information via traditional advertising," says one marketing expert. Says another, "People today want a voice and a role in their brand experiences. They want co-creation."17 However, at the same time that the new technologies create relationship-building opportunities for marketers, they also create challenges. They give consumers greater power and control. Today's consumers have more information about brands than ever before, and they have a wealth of platforms for airing and sharing their brand views with other consumers. Thus, the marketing world is now embracing not only customer relationship management, but also customer-managed relationships.

Consumer-Generated Marketing. A growing part of the new customer dialogue is consumer-generated marketing, by which consumers themselves are playing a bigger role in shaping their own brand experiences and those of others. This might happen through uninvited consumer-to-consumer exchanges in blogs, video-sharing sites, and other digital forums. But increasingly, companies are inviting consumers to play a more active role in shaping products and brand messages.

Partners inside the Company

Traditionally, marketers have been charged with understanding customers and representing customer needs to different company departments. The old thinking was that marketing is done only by marketing, sales, and customer-support people. However, in today's more connected world, every functional area can interact with customers, especially electronically. The new thinking is that—no matter what your job is in a company— you must understand marketing and be customer focused. David Packard, the late cofounder of HP, wisely said, "Marketing is far too important to be left only to the marketing department.

Marketing Partners outside the Firm

Changes are also occurring in how marketers connect with their suppliers, channel partners, and even competitors. Most companies today are networked companies, relying heavily on partnerships with other firms. Marketing channels consist of distributors, retailers, and others who connect the company to its buyers. The supply chain describes a longer channel, stretching from raw materials to components to final products that are carried to final buyers. For example, the supply chain for PCs consists of suppliers of computer chips and other components, the computer manufacturer, and the distributors, retailers, and others who sell the computers. Through supply chain management, many companies today are strengthening their connections with partners all along the supply chain. They know that their fortunes rest not just on how well they perform. Success at building customer relationships also rests on how well their entire supply chain performs against competitors' supply chains. These companies don't just treat suppliers as vendors and distributors as customers. They treat both as partners in delivering customer value. On the one hand, for example, Toyota works closely with carefully selected suppliers to improve quality and operations efficiency. On the other hand, it works with its franchise dealers to provide top-grade sales and service support that will bring customers in the door and keep them coming back.

Customer equity is the total combined customer lifetime values of all of the company's current and potential customers. As such, it's a measure of the future value of the company's customer base. Clearly, the more loyal the firm's profitable customers, the higher its customer equity. Customer equity may be a better measure of a firm's performance than current sales or market share. Whereas sales and market share reflect the past,

Building the Right Relationships with the Right Customers

Companies should manage customer equity carefully. They should view customers as assets that must be managed and maximized. But not all customers, not even all loyal customers, are good investments. Surprisingly, some loyal customers can be unprofitable, and some disloyal customers can be profitable. Which customers should the company acquire and retain? The company can classify customers according to their potential profitability and manage its relationships with them accordingly. One classification scheme defines four relationship groups based on potential profitability and projected loyalty: strangers, butterflies, true friends, and barnacles. Each group requires a different relationship management strategy.

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

REVIEW QUESTIONS

1. Define marketing and discuss how it is more than just "telling and selling."

2. Marketing has been criticized because it "makes people buy things they don't really need." Refute or support this accusation.

3. Discuss the two important questions a marketing manager must answer when designing a winning marketing strategy. How should a manager approach finding answers to these questions?

4. What are the five different marketing management orientations?

5. Explain the difference between share of customer and customer equity. Why are these concepts important to marketers?

6. Discuss trends impacting marketing and the implications of these trends on how marketers deliver value to customers.

FURTHER READINGS

1. Marketing management-S.Jaychandran
2. Marketing management and strategy-Peter dayal, Philip stern
3. Marketing management-Dhawan and sundaram
4. Marketing management-s.h.h. kajami
5. Marketing management-montgue brown

IMPORTANT NOTES

UNIT-2 COMPANY AND MARKETING STRATEGY

CONTENTS

INTRODUCTION

Each company must find the game plan for long-run survival and growth that makes the most sense given its specific situation, opportunities, objectives, and resources. This is the focus of strategic planning—the process of developing and maintaining a strategic fit between the organization's goals and capabilities and its changing marketing opportunities. Strategic planning sets the stage for the rest of planning in the firm. Companies usually prepare annual plans, long-range plans, and strategic plans. The annual and long-range plans deal with the company's current businesses and how to keep them going. In contrast, the strategic plan involves adapting the firm to take advantage of opportunities in its constantly changing environment. At the corporate level, the company starts the strategic planning process by defining its overall purpose and mission. This mission is then turned into detailed supporting objectives that guide the entire company. Next, headquarters decides what portfolio of businesses and products is best for the company and how much support to give each one. In turn, each business and product develops detailed marketing and other departmental plans that support the company-wide plan. Thus, marketing planning occurs at the business-unit, product, and market levels. It supports company strategic planning with more detailed plans for specific marketing opportunities.

Strategic planning

The process of developing and maintaining a strategic fit between the organization's goals and capabilities and its changing marketing opportunities. Company-wide strategic planning guides marketing strategy and planning. Like marketing strategy, the company's broad strategy must also be customer focused.

An organization exists to accomplish something, and this purpose should be clearly stated. Forging a sound mission begins with the following questions: What is our business? Who is the customer? What do consumers value? What should our business be? These simple sounding questions are among the most difficult the company will ever have to answer. Successful companies continuously raise these questions and answer them carefully and completely. Many organizations develop formal mission statements that answer these questions. A mission statement is a statement of the organization's purpose—what it wants to accomplish in the larger environment. A clear mission statement acts as an "invisible hand" that guides people in the organization.

Some companies define their missions myopically in product or technology terms ("We make and sell furniture" or "We are a chemical-processing firm"). But mission statements should be market oriented and defined in terms of satisfying basic customer needs. Products and technologies eventually become outdated, but basic market needs may last forever. Under Armour's mission isn't just to make performance sports apparel; it's "to make all athletes better through passion, science, and the relentless pursuit of innovation." Likewise, Chipotle's mission isn't to sell burritos. Instead, the restaurant promises "Food with Integrity," highlighting its commitment to the immediate and long-term welfare of customers and the environment. Chipotle's serves only the very best natural, sustainable, local ingredients raised "with respect for the animals, the environment, and the farmers." ss definitions.2

Mission statement

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

Business portfolio

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

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

Management's first step is to identify the key businesses that make up the company, called strategic business units (SBUs). An SBU can be a company division, a product line within a division, or sometimes a single product or brand. The company next assesses the attractiveness of its various SBUs and decides how much support each deserves. When designing a business portfolio, it's a good idea to add and support products and businesses that fit closely with the firm's core philosophy and competencies. The purpose of strategic planning is to find ways in which the company can best use its strengths to take advantage of attractive opportunities in the environment. So most standard portfolio analysis methods evaluate SBUs on two important dimensions: the attractiveness of the SBU's market or industry and the strength of the SBU's position in that market or industry. The best-known portfolio-planning method was developed by the Boston Consulting Group, a leading management consulting firm.

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

1. Stars. Stars are high-growth, high-share businesses or products. They often need heavy investments to finance their rapid growth. Eventually their growth will slow down, and they will turn into cash cows.

2. Cash Cows. Cash cows are low-growth, high-share businesses or products. These established and successful SBUs need less investment to hold their market share. Thus, they amenities such as live plants, wireless Internet access, and flat-screen TVs showing cable news. Play areas in some new restaurants now feature video games and even stationary bicycles with video screens.

3. Question Marks. Question marks are low-share business units in high-growth markets. They require a lot of cash to hold their share, let alone increase it. Management has to think hard about which question marks it should try to build into stars and which should be phased out.

4. Dogs. Dogs are low-growth, low-share businesses and products. They may generate enough cash to maintain themselves but do not promise to be large sources of cash. The 10 circles in the growth-share matrix represent the company's 10 current SBUs. The company has two stars, two cash cows, three question marks, and three dogs. The areas of the circles are proportional to the SBU's dollar sales. This company is in fair shape, although not in good shape. It wants to invest in the more promising question marks to make them stars and maintain the stars so that they will become cash cows as their markets mature. Fortunately,

it has two good-sized cash cows. Income from these cash cows will help finance the company's question marks, stars, and dogs. The company should take some decisive action concerning its dogs and its question marks.

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

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

Developing Strategies for Growth and Downsizing

Beyond evaluating current businesses, designing the business portfolio involves finding businesses and products the company should consider in the future. Companies need growth if they are to compete more effectively, satisfy their stakeholders, and attract top talent. At the same time, a firm must be careful not to make growth itself an objective. The company's objective must be to manage "profitable growth."

Marketing has the main responsibility for achieving profitable growth for the company. Marketing needs to identify, evaluate, and select market opportunities and establish strategies for capturing them. One useful device for identifying growth opportunities is the **product/market expansion grid**, shown in We apply it here to performance sports apparel maker through marketing mix improvements—adjustments to its product design, advertising, pricing, and distribution efforts. For example, Under Armour offers an ever-increasing range of styles and colors in its original apparel lines. It recently boosted its promotion spending in an effort to drive home its "performance and authenticity" positioning. The company also added direct-to-consumer distribution channels, including its own retail stores, Web site, and toll-free call center. Direct-to-consumer sales grew almost 50 percent last year and now account for more than 15 percent of total revenues.

Second, Under Armour might consider possibilities for **market development**—identifying and developing new markets for its current products. Under Armour could review new demographic markets. For instance, the company recently stepped up its emphasis on women consumers and predicts that its women's apparel business will someday be larger than its men's apparel business. The Under Armour "Athletes Run" advertising campaign includes a 30-second "women's only" spot. Under Armour could also pursue new geographical markets. For example, the brand has announced its intentions to expand internationally. Third, Under Armour could consider **product development**— offering modified or new products to current markets. In 2008, in an effort to transform itself from a niche player to a mainstream brand, Under Armour entered the $19 billion athletic footwear market with a line of cross-trainer shoes. Last year, it introduced high-performance running shoes. Although this puts the company into direct competition with sports heavyweights

Nike and Adidas, it also offers promise for big growth. Finally, Under Armour might consider **diversification**— starting up or buying businesses beyond its current products and markets. For example, it could move into non-performance leisurewear or begin making and marketing Under Armour fitness equipment. When diversifying, companies must be careful not to overextend their brands' positioning. Companies must not only develop strategies for growing their business portfolios but also strategies for downsizing them. There are many reasons that a firm might want to abandon products or markets. The firm may have grown too fast or entered areas where it lacks experience. This can occur when a firm enters too many international markets without the proper research or when a company introduces new products that do not offer superior customer value. The market environment might change, making some products or markets less profitable. For example, in difficult economic times, many firms prune out weaker, less profitable products and markets to focus their more limited resources on the strongest ones. Finally, some products or business units simply age and die. When a firm finds brands or businesses that are unprofitable or that no longer fit its overall strategy, it must carefully prune, harvest, or divest them. Weak businesses usually require a disproportionate amount of management attention. Managers should focus on promising growth opportunities, not fritter away energy trying to salvage fading ones.

Planning Marketing: Partnering to Build Customer Relationships

The company's strategic plan establishes what kinds of businesses the company will operate and its objectives for each. Then, within each business unit, more detailed planning takes place. The major functional departments in each unit—marketing, finance, accounting, purchasing, operations, information systems, human resources, and others—must work together to accomplish strategic objectives.

Growth: Under Armour has grown at a blistering rate under its multipronged growth strategy.

Marketing plays a key role in the company's strategic planning in several ways. First, marketing provides a guiding philosophy—the marketing concept—that suggests that company strategy should revolve around building profitable relationships with important consumer groups. Second, marketing provides inputs to strategic planners by helping to identify attractive market opportunities and assessing the firm's potential to take advantage of them. Finally, within individual business units, marketing designs strategies for reaching the unit's objectives. Once the unit's objectives are set, marketing's task is to help carry them out profitably. Customer value is the key ingredient in the marketer's formula for success. However, as we noted in Unit 1, marketers alone cannot produce superior value for customers. Although marketing plays a leading role, it can be only a partner in attracting, keeping, and growing customers. In addition to customer relationship management, marketers must also practice partner relationship management. They must work closely with partners in other company departments to form an effective internal value chain that serves customers. Moreover, they must partner effectively with other companies in the marketing system to form a competitively superior external value delivery network. We now take a closer look at the concepts of a company value chain and a value delivery network.

Partnering with Other Company Departments

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

Value chain

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

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

The strategic plan defines the company's overall mission and objectives. Marketing's role, which summarizes the major activities involved in managing a customer-driven marketing strategy and the marketing mix. Consumers are in the center. The goal is to create value for customers and build profitable customer relationships. Next comes **marketing strategy**—the marketing logic by which the company hopes to create this customer value and achieve these profitable relationships. The company decides which customers it will serve (segmentation and targeting) and how (differentiation and positioning). It identifies the total market and then divides it into smaller segments, selects the most promising segments, and focuses on serving and satisfying the customers in these segments.

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

Customer-Driven Marketing Strategy

As emphasized throughout Unit 1, to succeed in today's competitive marketplace, companies must be customer centered. They must win customers from competitors and then keep and grow them by delivering greater value. But before it can satisfy customers, a company must first understand customer needs and wants. Thus, sound marketing requires careful customer analysis. Companies know that they cannot profitably serve all consumers in a given market— at least not all consumers in the same way. There are too many different kinds of consumers with too many different kinds of needs. Most companies are in a position to serve some segments better than others. Thus, each company must divide up the total market, choose the best segments, and design strategies for profitably serving chosen segments. This process involves market segmentation, market targeting, differentiation, and positioning.

Marketing strategy

The marketing logic by which the company hopes to create customer value and achieve profitable customer relationships.

Marketing strategy involves two key questions: Which customers will we serve (segmentation and targeting)? And how will we create value for them (differentiation and positioning)? Then, the company designs a marketing program—the four Ps—that delivers the intended value to targeted consumers. At its core, marketing is all about creating customer value and profitable customer relationships.

Market Segmentation

The market consists of many types of customers, products, and needs. The marketer must determine which segments offer the best opportunities. Consumers can be grouped and served in various ways based on geographic, demographic, psychographic, and behavioural factors. The process of dividing a market into distinct groups of buyers who have different needs, characteristics, or behaviors, and who might require separate products or marketing programs is called **market segmentation**.

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

Market Targeting

After a company has defined its market segments, it can enter one or many of these segments.

Market targeting involves evaluating each market segment's attractiveness and selecting one or more segments to enter. Acompany should target segments in which it can profitably generate the greatest customer value and sustain it over time. A company with limited resources might decide to serve only one or a few special segments or market niches. Such nichers specialize in serving customer segments that major competitors overlook or ignore. For example, Ferrari sells only 1,500 of its very high-performance cars in the United States each year but at very high prices—from an eye-opening $229,500 for its Ferrari F430 F1 Spider convertible to an astonishing more than $2 million for its FXX super sports car, which can be driven only on race tracks (it usually sells 10 in the United States each year). Most nichers aren't quite so exotic. White Wave, the maker of Silk Soymilk, has found its niche as the nation's largest soymilk producer. And although Logitech is only a fraction the size of giant Microsoft, through skillful niching, it dominates the PC mouse market, with Microsoft as its runner up.

Alternatively, a company might choose to serve several related segments—perhaps those with different kinds of customers but with the same basic wants. Abercrombie & Fitch, for example, targets college students, teens, and kids with the same upscale, casual clothes and accessories in three different outlets: the original Abercrombie & Fitch, Hollister, and Abercrombie. Or a large company might decide to offer a complete range of products to serve all market segments. Large car companies such as Honda and Ford do this. Most companies enter a new market by serving a single segment, and, if this proves successful, they add more segments. For example, Nike started with innovative running shoes for serious runners. Large companies eventually seek full market coverage. Nike now makes and sells a broad range of sports products for just about anyone and everyone, with the goal of "helping athletes at every level of ability reach their potential."12 It has different products designed to meet the special needs of each segment it serves.

Market Differentiation and Positioning

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

Positioning is arranging for a product to occupy a clear, distinctive, and desirable place relative to competing products in the minds of target consumers. Marketers plan positions that distinguish their products from competing brands and give them the greatest advantage in their target markets.

After determining its overall marketing strategy, the company is ready to begin planning the details of the marketing mix, one of the major concepts in modern marketing. The **marketing mix** is the set of tactical marketing tools that the firm blends to produce the response it wants in the target market. The marketing mix consists of everything the firm can do to influence the demand for its product. The many possibilities can be collected into four groups of variables—the four Ps. Figure 2.5 shows the marketing tools under each P.

• Product means the goods-and-services combination the company offers to the target market. Thus, a Ford Escape consists of nuts and bolts, spark plugs, pistons, headlights, and thousands of other parts. Ford offers several Escape models and dozens of optional features. The car comes fully serviced and with a comprehensive warranty that is as much a part of the product as the tailpipe.

Differentiation

Actually differentiating the market offering to create superior customer value. tent, or pick up an entertainment-system remote, it's a pretty good bet that you'll have your hand on a Logitech device. It's also a good bet that you'll really like the way it works and feels. "The goal [is] passing the 'ooooh' test," says a Logitech project leader, "creating a visceral experience that communicates both performance and luxury."

Marketing mix

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

• Price is the amount of money customers must pay to obtain the product. Ford calculates suggested retail prices that its dealers might charge for each Escape. But Ford dealers rarely charge the full sticker price. Instead, they negotiate the price with each customer, offering discounts, trade-in allowances, and credit terms. These actions adjust prices for the current competitive and economic situations and bring them into line with the buyer's perception of the car's value.

• Place includes company activities that make the product available to target consumers. Ford partners with a large body of independently owned dealerships that sell the company's many different models. Ford selects its dealers carefully and strongly supports them. The dealers keep an inventory of Ford automobiles, demonstrate them to potential buyers, negotiate prices, close sales, and service the cars after the sale.

• Promotion means activities that communicate the merits of the product and persuade target customers to buy it. Ford spends more than $1.5 billion each year on U.S. advertising to tell consumers about the company and its many products.13 Dealership salespeople assist potential buyers and persuade them that Ford is the best car for them. Ford and its dealers offer special promotions—sales, cash rebates, and low financing rates—as added purchase incentives.

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

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

Managing the Marketing Effort

In addition to being good at the marketing in marketing management, companies also need to pay attention to the management. Managing the marketing process requires the four marketing management functions—analysis, planning, implementation, and control. The company first develops company-wide strategic plans and then translates them into marketing and other plans for each division, product, and brand. Through implementation, the company turns the plans into actions. Control consists of measuring and evaluating the results of marketing activities and taking corrective action where needed. Finally, marketing analysis provides information and evaluations needed for all the other marketing activities.

Marketing Analysis

Managing the marketing function begins with a complete analysis of the company's situation. The marketer should conduct a **SWOT analysis** (pronounced "swat" analysis), by which it evaluates the company's overall strengths (S), weaknesses (W), opportunities (O), and threats (T). Strengths include internal capabilities, resources, and positive situational factors that may help the company serve its customers and achieve its objectives.Weaknesses include internal limitations and negative situational factors that may interfere with the company's performance. Opportunities are favorable factors or trends in the external environment that the company may be able to exploit to its advantage. And threats are unfavorable external factors or trends that may present challenges to performance. The company should analyze its markets and marketing environment to find attractive opportunities and identify environmental threats. It should analyze company strengths and weaknesses as well as current and possible marketing actions to determine which opportunities it can best pursue. The goal is to match the company's strengths to attractive opportunities in the environment, while eliminating or overcoming the weaknesses and minimizing the threats. Marketing analysis provides inputs to each of the other marketing management functions. We discuss marketing analysis more fully in Unit 3.

Marketing Planning

Through strategic planning, the company decides what it wants to do with each business unit. Marketing planning involves choosing marketing strategies that will help the company attain its overall strategic objectives. A detailed marketing plan is needed for each business, product, or brand. What does a marketing plan look like? Our discussion focuses on product or brand marketing plans. The plan begins with an executive summary that quickly reviews major assessments, goals, and recommendations. The main section of the plan presents a detailed SWOT analysis of the current marketing situation as well as potential threats and opportunities. The plan next states major objectives for the brand and outlines the specifics of a marketing strategy for achieving them. A marketing strategy consists of specific strategies for target markets, positioning, the marketing mix, and marketing expenditure levels. It outlines how the company intends to create value for target customers in order to capture value in return. In this section, the planner explains how each strategy responds to the threats, opportunities, and critical issues spelled out earlier in the plan. Additional sections of the marketing plan lay out an action program for implementing the marketing strategy along with the details of a supporting marketing budget. The last section outlines the controls that will be used to monitor progress, measure return on marketing investment, and take corrective action.

Marketing Implementation

Planning good strategies is only a start toward successful marketing. Abrilliant marketing strategy counts for little if the company fails to implement it properly. **Marketing implementation** is the process that turns marketing plans into marketing actions to accomplish strategic marketing objectives. Whereas marketing planning addresses the what and why of marketing activities, implementation addresses the who, where, when, and how.

Many managers think that "doing things right" (implementation) is as important as, or even more important than, "doing the right things" (strategy). The fact is that both are critical to success, and companies can gain competitive advantages through effective implementation.

One firm can have essentially the same strategy as another, yet win in the marketplace through

Marketing Control

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

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

Operating control involves checking ongoing performance against the annual plan and taking corrective action when necessary. Its purpose is to ensure that the company achieves the sales, profits, and other goals set out in its annual plan. It also involves determining the profitability of different products, territories, markets, and channels. Strategic control involves looking at whether the company's basic strategies are well matched to its opportunities. Marketing strategies and programs can quickly become outdated, and each company should periodically reassess its overall approach to the marketplace.

Measuring and Managing Return on Marketing Investment

Marketing managers must ensure that their marketing dollars are being well spent. In the past, many marketers spent freely on big, expensive marketing programs, often without thinking carefully about the financial returns on their spending. They believed that marketing produces intangible creative outcomes, which do not lend themselves readily to measures of productivity or return. But in today's more constrained economy, all that is changing: For years, corporate marketers have walked into budget meetings like neighbourhood junkies. They couldn't always justify how well they spent past handouts or what difference it all made. They just wanted more money—for flashy TV ads, for big-ticketevents, for, you know, getting out the message and building up the brand. But those heady days of blind budget increases are fast being replaced with a new mantra: measurement and accountability. "Marketers have been pretty unaccountable for many years," notes one expert. "Now they are under big pressure to estimate their impact." Another analyst puts in more bluntly: "Marketing needs to stop fostering 'rock star' behavior and focus on rock-steady results."

According to a recent study, as finances have tightened, marketers see return on marketing investment as the second biggest issue after the economy. "Increasingly, it is important for marketers to be able to justify their expenses," says one marketer. For every brand and marketing program, says another, marketers need to ask themselves, "Do I have the right combination of strategy and tactics that will generate the most return in terms of share, revenue and/or profit objectives from my investment?"

In response, marketers are developing better measures of marketing ROI. **Return on marketing investment** (or **marketing ROI**) is the net return from a marketing investment divided by the costs of the marketing investment. It measures the profits generated by investments in marketing activities.

Many companies are assembling marketing dashboards—meaningful sets of marketing performance measures in a single display used to set and adjust their marketing strategies.

REVIEW QUESTIONS

1. Explain what is meant by a market-oriented mission statement and discuss the characteristics of effective mission statements.

2. Define strategic planning and briefly describe the four steps that lead managers and a firm through the strategic planning process. Discuss the role marketing plays in this process.

3. Explain why it is important for all departments of an organization—marketing, accounting, finance, operations management, human resources, and soon—to "think consumer." Why is it important that even people who are not in marketing understand it?

4. Define positioning and explain how it is accomplished.

5. Define each of the four Ps. What insights might a firm gain by considering the four Cs rather than the four Ps?

6. What is marketing ROI? Why is it difficult to measure?

FURTHER READINGS

1. Marketing management-S.Jaychandran
2. Marketing management and strategy-Peter dayal, Philip stern
3. Marketing management-Dhawan and sundaram
4. Marketing management-s.h.h. kajami
5. Marketing management-montgue brown

IMPORTANT NOTES

UNIT-3 ANALYZING THE MARKETING ENVIRONMENT

CONTENTS

INTRODUCTION

A company's marketing environment consists of the actors and forces outside marketing that affect marketing management's ability to build and maintain successful relationships with target customers. Like Xerox, companies constantly watch and adapt to the changing environment. More than any other group in the company, marketers must be environmental trend trackers and opportunity seekers. Although every manager in an organization should watch the outside environment, marketers have two special aptitudes. They have disciplined methods—marketing research and marketing intelligence—for collecting information about the marketing environment. They also spend more time in customer and competitor environments. By carefully studying the environment, marketers can adapt their strategies to meet new marketplace challenges and opportunities.

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

The Microenvironment

Marketing management's job is to build relationships with customers by creating customer value and satisfaction. However, marketing managers cannot do this alone. Marketing success requires building relationships with other company departments, suppliers, marketing intermediaries, competitors, various publics, and customers, which combine to make up the company's value delivery network.

Actors in the Microenvironment

The Company

In designing marketing plans, marketing management takes other company groups into account—groups such as top management, finance, research and development (R&D), purchasing, operations, and accounting. All of these interrelated groups form the internal environment. Top management sets the company's mission, objectives, broad strategies, and policies. Marketing managers make decisions within the strategies and plans made by top management.

As we discussed in Unit 2, marketing managers must work closely with other company departments. Other departments have an impact on the marketing department's plans and actions. And, under the marketing concept, all of these functions must "think consumer." According to a former Xerox CEO, to provide a great customer experience, Xerox must "find out what customers are facing—what their problems and opportunities are. Everyone at Xerox shares this responsibility. That includes people and departments that have not always been customer-facing, like finance, legal, and human resources."2

Suppliers

Suppliers form an important link in the company's overall customer value delivery network. They provide the resources needed by the company to produce its goods and services. Supplier problems can seriously affect marketing. Marketing managers must watch supply availability and costs. Supply shortages or delays, labor strikes, and other events can cost sales in the short run and damage customer satisfaction in the long run. Rising supply costs may force price increases that can harm the company's sales volume. Most marketers today treat their suppliers as partners in creating and delivering customer value.

Marketing Intermediaries

Marketing intermediaries help the company promote, sell, and distribute its products to final buyers. They include resellers, physical distribution firms, marketing services agencies, and financial intermediaries. Resellers are distribution channel firms that help the company find customers or make sales to them. These include wholesalers and retailers who buy and resell merchandise. Selecting and partnering with resellers is not easy. No longer do manufacturers have many small, independent resellers from which to choose. They now face large and growing reseller organizations, such as Walmart, Target, Home Depot, Costco, and Best Buy. These organizations frequently have enough power to dictate terms or even shut smaller manufacturers out of large markets.

Physical distribution firms

Physical distribution firms help the company stock and move goods from their points of origin to their destinations. Marketing services agencies are the marketing research firms, advertising agencies, media firms, and marketing consulting firms that help the company target and promote its products to the right markets. Financial intermediaries include banks, credit companies, insurance companies, and other businesses that help finance transactions or insure against the risks associated with the buying and selling of goods. Like suppliers, marketing intermediaries form an important component of the company's overall value delivery network. In its quest to create satisfying customer relationships, the company must do more than just optimize its own performance. It must partner effectively with marketing intermediaries to optimize the performance of the entire system.

Publics

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

• Financial publics. This group influences the company's ability to obtain funds. Banks, investment analysts, and stockholders are the major financial publics.

• Media publics. This group carries news, features, and editorial opinion. It includes newspapers, magazines, television stations, and blogs and other Internet media.

• Government publics. Management must take government developments into account. Marketers must often consult the company's lawyers on issues of product safety, truth in advertising, and other matters.

• Citizen-action publics. A company's marketing decisions may be questioned by consumer organizations, environmental groups, minority groups, and others. Its public relations department can help it stay in touch with consumer and citizen groups.

• Local publics. This group includes neighborhood residents and community organizations. Large companies usually create departments and programs that deal with local community issues and provide community support.

• General public. A company needs to be concerned about the general public's attitude toward its products and activities. The public's image of the company affects its buying.

• Internal publics. This group includes workers, managers, volunteers, and the board of directors. Large companies use newsletters and other means to inform and motivate their internal publics. When employees feel good about the companies they work for, this positive attitude spills over to the external publics. A company can prepare marketing plans for these major publics as well as for its customer markets. Suppose the company wants a specific response from a particular public, such as goodwill, favorable word of mouth, or donations of time or money. The company would have to design an offer to this public that is attractive enough to produce the desired response.

Customers

As we've emphasized throughout, customers are the most important actors in the company's microenvironment. The aim of the entire value delivery network is to serve target customers and create strong relationships with them. The company might target any or all five types of customer markets. Consumer markets consist of individuals and households that buy goods and services for personal consumption. Business markets buy goods and services for further processing or use in their production processes, whereas reseller markets buy goods and services to resell at a profit. Government markets consist of government agencies that buy goods and services to produce public services or transfer the goods and services to others who need them. Finally, international markets consist of these buyers in other countries, including consumers, producers, resellers, and governments. Each market type has special characteristics that call for careful study by the seller.

The Macroenvironment

The company and all of the other actors operate in a larger macroenvironment of forces that shape opportunities and pose threats to the company

The Demographic Environment

Demography is the study of human populations in terms of size, density, location, age, gender, race, occupation, and other statistics. The demographic environment is of major interest to marketers because it involves people, and people make up markets. The world population is growing at an explosive rate. It now exceeds 6.8 billion people and is expected to grow to more than 8 billion by the year 2030.6 The world's large and highly diverse population poses both opportunities and challenges.

The Economic Environment

Markets require buying power as well as people. The **economic environment** consists of economic factors that affect consumer purchasing power and spending patterns. Marketers must pay close attention to major trends and consumer spending patterns both across and within their world markets.

The Natural Environment

The **natural environment** involves the natural resources that are needed as inputs by marketers or that are affected by marketing activities. Environmental concerns have grown steadily over the past three decades. In many cities around the world, air and water pollution have reached dangerous levels. World concern continues to mount about the possibilities of global warming, and many environmentalists fear that we soon will be buried in our own trash. Marketers should be aware of several trends in the natural environment. The first involves growing shortages of raw materials. Air and water may seem to be infinite resources, but some groups see long-run dangers. Air pollution chokes many of the world's large cities, and water shortages are already a big problem in some parts of the United States and the world. By 2030, more than one in three of the world's population will not have enough water to drink.40 Renewable resources, such as forests and food, also have to be used wisely. Nonrenewable resources, such as oil, coal, and various minerals, pose a serious problem. Firms making products that require these scarce resources face large cost increases, even if the materials remain available.

A second environmental trend is increased pollution. Industry will almost always damage the quality of the natural environment. Consider the disposal of chemical and nuclear today's enlightened companies are developing environmentally sustainable strategies in an effort to create a world economy that the planet can support indefinitely.

The Technological Environment

The **technological environment** is perhaps the most dramatic force now shaping our destiny. Technology has released such wonders as antibiotics, robotic surgery, miniaturized electronics, smartphones, and the Internet. It also has released such horrors as nuclear missiles, chemical weapons, and assault rifles. It has released such mixed blessings as the automobile, television, and credit cards. Our attitude toward technology depends on whether we are more impressed with its wonders or its blunders. New technologies can offer exciting opportunities for marketers. For example, what would you think about having tiny little transmitters implanted in all the products you buy, which would allow tracking of the products from their point of production through use and disposal? On the one hand, it would provide many advantages to both buyers and sellers. On the other hand, it could be a bit scary. Either way, it's already happening: Envision a world in which every product contains a tiny transmitter, loaded with information. As you stroll through supermarket aisles, shelf sensors detect your selections and beam ads to your shopping cart screen, offering special deals on related products. As your cart fills, scanners detect that you might be buying for a dinner party; the screen suggests a wine to go with the meal you've planned. When you leave the store, exit scanners total up your purchases and automatically charge them to your credit card. At home, readers track what goes into and out of your pantry, updating your shopping list when stocks run low. For Sunday dinner, you pop a Butterball turkey into your "smart oven," which follows instructions from an embedded chip and cooks the bird to perfection. Seem farfetched?

The Political and Social Environment

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

Legislation Regulating Business

Even the most liberal advocates of free-market economies agree that the system works best with at least some regulation. Well-conceived regulation can encourage competition and ensure fair markets for goods and services. Thus, governments develop public policy to guide commerce—sets of laws and regulations that limit business for the good of society as a whole. Almost every marketing activity is subject to a wide range of laws and regulations. **Increasing Legislation.** Legislation affecting business around the world has increased steadily over the years. The United States has many laws covering issues such as competition, fair trade practices, environmental protection, product safety, truth in advertising, consumer privacy, packaging and labeling, pricing, and other important areas.

The European Commission has been active in establishing a new framework of laws covering competitive behavior, product standards, product liability, and commercial transactions for the nations of the European Union.

Increased Emphasis on Ethics and Socially Responsible Actions

Written regulations cannot possibly cover all potential marketing abuses, and existing laws are often difficult to enforce. However, beyond written laws and regulations, business is also governed by social codes and rules of professional ethics. **Socially Responsible Behavior.** Enlightened companies encourage their managers to look beyond what the regulatory system allows and simply “do the right thing.” These socially responsible firms actively seek out ways to protect the long-run interests of their consumers and the environment.

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

The boom in Internet marketing has created a new set of social and ethical issues. Critics worry most about online privacy issues. There has been an explosion in the amount of personal digital data available. Users, themselves, supply some of it. They voluntarily place highly private information on social-networking sites, such as Facebook or LinkedIn, or on genealogy sites that are easily searched by anyone with a computer or a smartphone. However, much of the information is systematically developed by businesses seeking to learn more about their customers, often without consumers realizing that they are under the microscope. Legitimate businesses plant cookies on consumers’ PCs and collect, analyze, and share digital data from every move consumers make at their Web sites. Critics are concerned that companies may now know too much and might use digital data to take unfair advantage of consumers. Although most companies fully disclose their Internet privacy policies and most work to use data to benefit their customers, abuses do occur. As a result, consumer advocates and policymakers are taking action to protect consumer privacy. In Unit 20, we discuss these and other societal marketing issues in greater depth. **Cause-Related Marketing.** To exercise their social responsibility and build more positive images, many companies arenowlinking themselves to worthwhile causes.

The Cultural Environment

The **cultural environment** consists of institutions and other forces that affect a society’s basic values, perceptions, preferences, and behaviors. People grow up in a particular society that shapes their basic beliefs and values. They absorb a worldview that defines their relationships with others. The following cultural characteristics can affect marketing decision making.

The Persistence of Cultural Values

People in a given society hold many beliefs and values. Their core beliefs and values have a high degree of persistence. For example, most Americans believe in individual freedom, hard work, getting married, and achievement and success. These beliefs shape more specific attitudes and behaviors found in everyday life. Core beliefs and values are passed on from parents to children and are reinforced by schools, churches, business, and government. Secondary beliefs and values are more open to change. Believing in marriage is a core belief; believing that people should get married early in life is a secondary belief. Marketers have some chance of changing secondary values but little chance of changing core values. For example, family-planning marketers could argue more effectively that people should get married later than not getting married at all.

People's Views of Society. People vary in their attitudes toward their society—patriots defend it, reformers want to change it, and malcontents want to leave it. People's orientation to their society influences their consumption patterns and attitudes toward the marketplace. American patriotism has been increasing gradually for the past two decades. It surged, however, following the September 11, 2001, terrorist attacks and the Iraq war. For example, the summer following the start of the Iraq war saw a surge of pumped-up Americans visiting U.S. historic sites, ranging from the Washington D.C. monuments, Mount Rushmore, the Gettysburg battlefield, and the USS Constitution ("Old Ironsides") to Pearl Harbor and the Alamo. Following these peak periods, patriotism in the United States still remains high. A recent global survey on "national pride" found Americans tied for number one among the 17 democracies polled.

Marketers respond with patriotic products and promotions, offering everything from floral bouquets to clothing with patriotic themes. Although most of these marketing efforts are tasteful and well received, waving the red, white, and blue can prove tricky. Except in cases where companies tie product sales to charitable contributions, such flag-waving promotions can be viewed as attempts to cash in on triumph or tragedy. Marketers must take care when responding to such strong national emotions.

People's Views of Nature. People vary in their attitudes toward the natural world—some feel ruled by it, others feel in harmony with it, and still others seek to master it. Along-term trend has been people's growing mastery over nature through technology and the belief that nature is bountiful. More recently, however, people have recognized that nature is finite and fragile; it can be destroyed or spoiled by human activities.

People's Views of the Universe. Finally, people vary in their beliefs about the origin of the universe and their place in it. Although most Americans practice religion, religious conviction and practice have been dropping off gradually through the years.

Responding to the Marketing Environment

Someone once observed, "There are three kinds of companies: those who make things happen, those who watch things happen, and those who wonder what's happened." Many companies view the marketing environment as an uncontrollable element to which they must react and adapt. They passively accept the marketing environment and do not try to change it. They analyze environmental forces and design strategies that will help the company avoid the threats and take advantage of the opportunities the environment provides. Other companies take a proactive stance toward the marketing environment. "Instead of letting the environment define their strategy," advises one marketing expert, "craft a strategy that defines your environment."55 Rather than assuming that strategic options are bounded by the current environment, these firms develop strategies to change the environment. "Business history . .

. reveals plenty of cases in which firms' strategies shape industry structure," says the expert, "from Ford's Model T to Nintendo's Wii." Even more, rather than simply watching and reacting to environmental events, these firms take aggressive actions to affect the publics and forces in their marketing environment. Such companies hire lobbyists to influence legislation affecting their industries and stage media events to gain favorable press coverage. They run "advertorials" (ads expressing editorial points of view) to shape public opinion. They press lawsuits and file complaints with regulators to keep competitors in line, and they form contractual agreements to better control their distribution channels.

By taking action, companies can often overcome seemingly uncontrollable environmental events. For example, whereas some companies view the seemingly ceaseless online rumor mill as something over which they have no control, others work proactively to prevent or counter negative word of mouth. Kraft foods did this when its Oscar Mayer brand fell victim to a potentially damaging e-mail hoax:

Real Marketing

The company's microenvironment consists of actors close to the company that combine to form its value delivery network or that affect its ability to serve its customers. It includes the company's internal environment—its several departments and management levels—as it influences marketing decision making. Marketing channel firms—suppliers and marketing intermediaries, including resellers, physical distribution firms, marketing services agencies, and financial intermediaries—cooperate to create customer value. Competitors vie with the company in an effort to serve customers better. Various publics have an actual or potential interest in or impact on the company's ability to meet its objectives. Finally, five types of customer markets include consumer, business, reseller, government, and international markets. The macroenvironment consists of larger societal forces that affect the entire microenvironment. The six forces making up the company's macroenvironment include demographic, economic, natural, technological, political/social, and cultural forces. These forces shape opportunities and pose threats to the company.

REVIEW QUESTIONS

1. Describe the elements of a company's marketing environment and why marketers play a critical role in tracking environmental trends and spotting opportunities.

2. List some of the demographic trends of interest to marketers in the United States and discuss whether these trends pose opportunities or threats for marketers.

3. Discuss current trends in the economic environment that marketers must be aware of and provide examples of company responses to each trend.

4. Discuss trends in the natural environment that marketers must be aware of and provide examples of company responses to them.

5. Compare and contrast core beliefs/values and secondary beliefs/values. Provide an example of each and discuss the potential impact marketers have on each.

6. Explain how companies can take a proactive stance toward the marketing environment.

FURTHER READINGS

1. Marketing management-S.Jaychandran
2. Marketing managemen tand strategy-Peter dayal, Philip stern
3. Marketing management-Dhawan and sundaram
4. Marketing management-s.h.h. kajami
5. Marketing management-montgue brown

IMPORTANT NOTES

UNIT-4 MANAGING MARKETING INFORMATION TO GAIN CUSTOMER INSIGHTS

CONTENTS

INTRODUCTION

To create value for customers and build meaningful relationships with them, marketers must first gain fresh, deep insights into what customers need and want. Companies use such customer insights to develop competitive advantage. "In today's hypercompetitive world," states a marketing expert, "the race for competitive advantage is really a race for customer and market insights." Such insights come from good marketing information. Consider Apple's phenomenally successful iPod. The iPod wasn't the first digital music player, but Apple was the first to get it right. Apple's research uncovered a key insight about how people want to consume digital music—they want to take all their music with them, but they want personal music players to be unobtrusive. This insight led to two key design goals: make it as small as a deck of cards and build it to hold 1,000 songs. Add a dash of Apple's design and usability magic to this insight, and you have a recipe for a blockbuster. Apple's expanded iPod and iPod Touch lines now capture more than a 75 percent market share. And they've spawned other Apple blockbusters such as the iPhone and the iPad. Although customer and market insights are important for building customer value and relationships, these insights can be very difficult to obtain. Customer needs and buying motives are often anything but obvious—consumers themselves usually can't tell you exactly what they need and why they buy. To gain good customer insights, marketers must effectively manage marketing information from a wide range of sources.

Customer insights groups collect customer and market information from a wide variety of sources, ranging from traditional marketing research studies to mingling with and observing consumers to monitoring consumer online conversations about the company and its products. Then they use this information to develop important customer insights from which the company can create more value for its customers.

Thus, companies must design effective marketing information systems that give managers the right information, in the right form, at the right time and help them to use this information to create customer value and stronger customer relationships. A **marketing information system (MIS)** consists of people and procedures for assessing information needs, developing the needed information, and helping decision makers use the information to generate and validate actionable customer and market insights.

Customer insights

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

Marketing information system (MIS)

People and procedures for assessing information needs, developing the needed information, and helping decision makers to use the information to generate and validate actionable customer and market insights. Obtaining customer and market insights from marketing information

Marketing managers and other information users

Competitors Publics Macroenvironment forces

Target markets

Marketing channels

The marketing information system begins and ends with users—assessing their information needs and then delivering information that meets those needs.

The problem isn't finding information; the world is bursting with information from a glut of sources. The real challenge is to find the right information—from inside and outside sources—and turn it into customer insights.

First, it interacts with these information users to assess information needs. Next, it interacts with the marketing environment to develop needed information through internal company databases, marketing intelligence activities, and marketing research. Finally, the MIS helps users to analyze and use the information to develop customer insights, make marketing decisions, and manage customer relationships.

Assessing Marketing Information Needs

The marketing information system primarily serves the company's marketing and other managers. However, it may also provide information to external partners, such as suppliers, resellers, or marketing services agencies. For example, Walmart's RetailLink system gives key suppliers access to information on everything from customers' buying patterns and store inventory levels to how many items they've sold in which stores in the past 24 hours. Agood MIS balances the information users would like to have against what they really need and what is feasible to offer. The company begins by interviewing managers to find out what information they would like. Some managers will ask for whatever information they can get without thinking carefully about what they really need. Too much information can be as harmful as too little.

Other managers may omit things they ought to know, or they may not know to ask for some types of information they should have. For example, managers might need to know about surges in favorable or unfavorable consumer discussions about their brands on blogs or online social networks. Because they do not know about these discussions, they do not think to ask about them. The MIS must monitor the marketing environment to provide decision makers with information they should have to better understand customers and make key marketing decisions.

Sometimes the company cannot provide the needed information, either because it is not available or because of MIS limitations. For example, a brand manager might want to know how competitors will change their advertising budgets next year and how these changes will affect industry market shares. The information on planned budgets probably is not available. Even if it is, the company's MIS may not be advanced enough to forecast resulting changes in market shares.

Finally, the costs of obtaining, analyzing, storing, and delivering information can quickly mount. The company must decide whether the value of insights gained from additional information is worth the costs of providing it, and both value and cost are often hard to assess.

Developing Marketing Information

Marketers can obtain the needed information from internal data, marketing intelligence, and marketing research.

Internal Data

Many companies build extensive **internal databases**, electronic collections of consumer and market information obtained from data sources within the company's network. Marketing managers can readily access and work with information in the database to identify marketing opportunities and problems, plan programs, and evaluate performance. Internal data can provide strong competitive advantage. "Locked within your own records is a huge, largely untapped asset that no [competitor] can hope to match," says one analyst. Companies are "sitting on a gold mine of unrealized potential in their current customer base." Information in the database can come from many sources. The marketing department furnishes information on customer demographics, psychographics, sales transactions, and Web site visits. The customer service department keeps records of customer satisfaction or service problems. The accounting department prepares financial statements and keeps detailed records of sales, costs, and cash flows. Operations reports on production schedules, shipments, and inventories. The sales force reports on reseller reactions and competitor activities, and marketing channel partners provide data on point-of-sale transactions. Harnessing such information can provide powerful customer insights and competitive advantage.

Competitive Marketing Intelligence

Competitive marketing intelligence is the systematic collection and analysis of publicly available information about consumers, competitors, and developments in the marketplace. The goal of competitive marketing intelligence is to improve strategic decision making by understanding the consumer environment, assessing and tracking competitors' actions, and providing early warnings of opportunities and threats. Marketing intelligence gathering has grown dramatically as more and more companies are now busily eavesdropping on the marketplace and snooping on their competitors. Techniques range from monitoring

Internet buzz or observing consumers firsthand to quizzing the company's own employees, benchmarking competitors' products, researching the Internet, lurking around industry trade shows, and even rooting through rivals' trash bins. Good marketing intelligence can help marketers gain insights into how consumers talk about and connect with their brands. Many companies send out teams of trained observers to mix and mingle with customers as they use and talk about the company's products. Other companies routinely monitor consumers' online chatter with the help of monitoring services such as Nielsen Online or Radian6. For example, Radian helps companies to keep track of almost any relevant online conversation

Social media make it easier than ever for people to share—to have conversations and express their opinions, needs, ideas, and complaints. And they're doing it with millions of blogs, tweets, videos, and comments daily. Marketers face the difficult task of sifting through all the noise to find the gems about their brands. Radian6 gives companies a Web-based platform that lets them listen to, share with, learn from, and engage customers across the entire social Web. Radian6's Web dashboard provides for real-time monitoring of consumer mentions of the company, its brands, relevant issues, and competitors on millions of blog posts, viral videos, reviews in forums, sharing of photos, and twitter updates.

The Marketing Research Process

Marketing Research In addition to marketing intelligence information about general consumer, competitor, and marketplace happenings, marketers often need formal studies that provide customer and market insights for specific marketing situations and decisions. For example, Budweiser wants to know what appeals will be most effective in its Super Bowl advertising. Google wants to know how Web searchers will react to a proposed redesign of its site. Or Samsung wants to know how many and what kinds of people will buy its next-generation, ultrathin televisions. In such situations, marketing intelligence will not provide the detailed information needed. Managers will need marketing research.

Marketing research is the systematic design, collection, analysis, and reporting of data relevant to a specific marketing situation facing an organization. Companies use marketing research in a wide variety of situations. For example, marketing research gives marketers insights into customer motivations, purchase behavior, and satisfaction. It can help them to assess market potential and market share or measure the effectiveness of pricing, product, distribution, and promotion activities.

Some large companies have their own research departments that work with marketing managers on marketing research projects. This is how P&G, GE, and many other corporate giants handle marketing research. In addition, these companies—like their smaller counterparts—frequently hire outside research specialists to consult with management on specific marketing problems and conduct marketing research studies. Sometimes firms simply purchase data collected by outside firms to aid in their decision making. The marketing research process has four steps defining the problem and research objectives, developing the research plan, implementing the research plan, and interpreting and reporting the findings. Defining the Problem and Research Objectives Marketing managers and researchers must work closely together to define the problem and agree on research objectives. The manager best understands the decision for which information is needed; the researcher best understands marketing research and how to obtain the information. Defining the problem and research objectives is often the hardest step in the research process. The manager may know that something is wrong, without knowing the specific causes.

After the problem has been defined carefully, the manager and the researcher must set the research objectives. A marketing research project might have one of three types of objectives. The objective of **exploratory research** is to gather preliminary information that will help define the problem and suggest hypotheses. The objective of **descriptive research** is to describe things, such as the market potential for a product or the demographics and attitudes of consumers who buy the product. The objective of **causal research** is to test hypotheses about cause-and-effect relationships. For example, would a 10 percent decrease in tuition at a private college result in an enrollment increase sufficient to offset the reduced tuition? Managers often start with exploratory research and later follow with descriptive or causal research. The statement of the problem and research objectives guides the entire research process. The manager and the researcher should put the statement in writing to be certain that they agree on the purpose and expected results of the research.

Developing the Research Plan

Once the research problem and objectives have been defined, researchers must determine the exact information needed, develop a plan for gathering it efficiently, and present the plan to management. The research plan outlines sources of existing data and spells out the specific research approaches, contact methods, sampling plans, and instruments that researchers will use to gather new data. Research objectives must be translated into specific information needs.

• The demographic, economic, and lifestyle characteristics of current Red Bull customers. (Do current customers also consume enhanced-water products? Are such products consistent with their lifestyles? Or would Red Bull need to target a new segment of consumers?)

• The characteristics and usage patterns of the broader population of enhanced-water users: What do they need and expect from such products, where do they buy them, when and how do they use them, and what existing brands and price points are most popular? (The new Red Bull product would need strong, relevant positioning in the crowded enhanced-water market.)

• Retailer reactions to the proposed new product line: Would they stock and support it? Where would they display it? (Failure to get retailer support would hurt sales of the new drink.)

• Forecasts of sales of both the new and current Red Bull products. (Will the new enhanced waters create new sales or simply take sales away from current Red Bull products? Will the new product increase Red Bull's overall profits?)

Red Bull's marketers will need these and many other types of information to decide whether and how to introduce the new product.

The research plan should be presented in a written proposal. A written proposal is especially important when the research project is large and complex or when an outside firm carries it out. The proposal should cover the management problems addressed, the research objectives, the information to be obtained, and how the results will help management decision making. The proposal also should include estimated research costs.

To meet the manager's information needs, the research plan can call for gathering secondary data, primary data, or both. **Secondary data** consist of information that already exists somewhere, having been collected for another purpose. **Primary data** consist of information collected for the specific purpose at hand.

Gathering Secondary Data

Researchers usually start by gathering secondary data. The company's internal database provides a good starting point. However, the company can also tap into a wide assortment of external information sources, including commercial data services and government sources.

Using **commercial online databases**, marketing researchers can conduct their own searches of secondary data sources. General database services such as Dialog, Pro- Quest, and LexisNexis put an incredible wealth of information at the keyboards of marketing decision makers. Beyond commercial Web sites offering information for a fee, almost every industry association, government agency, business publication, and news medium offers free information to those tenacious enough to find their Web sites. There are so many Web sites offering data that finding the right ones can become an almost overwhelming task.

Internet search engines can be a big help in locating relevant secondary information sources. However, they can also be very frustrating and inefficient. For example, a Red Bull marketer Googling "enhanced water products" would come up with some 200,000 hits! Still, well-structured, well-designed Web searches can be a good starting point to any marketing research project.

Secondary data can usually be obtained more quickly and at a lower cost than primary data. Also, secondary sources can sometimes provide data an individual company cannot collect on its own—information that either is not directly available or would be too expensive to collect. For example, it would be too expensive for Red Bull's marketers to conduct a continuing retail store audit to find out about the market shares, prices, and displays of competitors' brands. But it can buy the InfoScan service from SymphonyIRI Group, which provides this information based on scanner and other data from 34,000 retail stores in markets around the nation.10

Secondary data can also present problems. The needed information may not exist; researchers can rarely obtain all the data they need from secondary sources. For example, Red Bull will not find existing information about consumer reactions about a new enhanced water line that it has not yet placed on the market. Even when data can be found, the information might not be very usable. The researcher must evaluate secondary information carefully to make certain it is relevant (fits research project needs), accurate (reliably collected and reported), current (up-to-date enough for current decisions), and impartial (objectively collected and reported).

Primary Data Collection

Secondary data provide a good starting point for research and often help to define research problems and objectives. In most cases, however, the company must also collect primary data. Just as researchers must carefully evaluate the quality of secondary information, they also must take great care when collecting primary data. They need to make sure that it will be relevant, accurate, current, and unbiased. **Table 4.2** shows that designing a plan for primary data collection calls for a number of decisions on research approaches, contact methods, the sampling plan, and research instruments.

Research Approaches

Research approaches for gathering primary data include observation, surveys, and experiments. We discuss each one in turn.

Observational Research. Observational research involves gathering primary data by observing relevant people, actions, and situations. For example, Family Dollar might evaluate possible new store locations by checking traffic patterns, neighborhood conditions, and the location of competing discount retail stores.

Researchers often observe consumer behavior to glean customer insights they can't obtain by simply asking customers questions. For instance, Fisher-Price has established an observation lab in which it can observe the reactions of little tots to new toys. The Fisher-Price Play Lab is a sunny, toy-strewn space where lucky kids get to test Fisher-Price prototypes, under the watchful eyes of designers who hope to learn what will get them worked up into a new-toy frenzy. Similarly, in its research labs, using high-tech cameras and other equipment, Gillette observes men and women shaving and uses the insights to design new razors and shaving products.

Marketers not only observe what consumers do but also observe what consumers are saying. As discussed earlier, marketers now routinely listen in on consumer conversations on blogs, social networks, andWeb sites. Observing such naturally occurring feedback can provide inputs that simply can't be gained through more structure and formal research approaches.

Observational research can obtain information that people are unwilling or unable to provide. In contrast, some things simply cannot be observed, such as feelings, attitudes, motives, or private behavior. Long-term or infrequent behavior is also difficult to observe. Finally, observations can be very difficult to interpret. Because of these limitations, researchers often use observation along with other data collection methods.

A wide range of companies now use **ethnographic research**. Ethnographic research involves sending observers to watch and interact with consumers in their "natural environments."

Observational research

Gathering primary data by observing relevant people, actions, and situations.

Ethnographic research

A form of observational research that involves sending trained observers to watch and interact with consumers in their "natural environments."

Survey Research. Survey research, the most widely used method for primary data collection, is the approach best suited for gathering descriptive information. A company that wants to know about people's knowledge, attitudes, preferences, or buying behavior can often find out by asking them directly.

The major advantage of survey research is its flexibility; it can be used to obtain many different kinds of information in many different situations. Surveys addressing almost any marketing question or decision can be conducted by phone or mail, in person, or on the Web.

However, survey research also presents some problems. Sometimes people are unable to answer survey questions because they cannot remember or have never thought about what they do and why. People may be unwilling to respond to unknown interviewers or about things they consider private. Respondents may answer survey questions even when they do not know the answer just to appear smarter or more informed. Or they may try to help the interviewer by giving pleasing answers. Finally, busy people may not take the time, or they might resent the intrusion into their privacy.

Experimental Research. Whereas observation is best suited for exploratory research and surveys for descriptive research, **experimental research** is best suited for gathering causal information. Experiments involve selecting matched groups of subjects, giving them different treatments, controlling unrelated factors, and checking for differences in group responses. Thus, experimental research tries to explain cause-and-effect relationships.

Contact Methods

Information can be collected by mail, telephone, personal interview, or online. **Mail, Telephone, and Personal Interviewing.** Mail questionnaires can be used to collect large amounts of information at a low cost per respondent. Respondents may give more honest answers to more personal questions on a mail questionnaire than to an unknown interviewer in person or over the phone. Also, no interviewer is involved to bias respondents' answers.

However, mail questionnaires are not very flexible; all respondents answer the same questions in a fixed order. Mail surveys usually take longer to complete, and the response rate—the number of people returning completed questionnaires—is often very low. Finally, the researcher often has little control over the mail questionnaire sample. Even with a good mailing list, it is hard to control whom at a particular address fills out the questionnaire. As a result of the shortcomings, more and more marketers are now shifting to faster, more flexible, and lower cost e-mail and online surveys.

Telephone interviewing is one of the best methods for gathering information quickly, and it provides greater flexibility than mail questionnaires. Interviewers can explain difficult questions and, depending on the answers they receive, skip some questions or probe on others.

Response rates tend to be higher than with mail questionnaires, and interviewers can ask to speak to respondents with the desired characteristics or even by name. However, with telephone interviewing, the cost per respondent is higher than with mail or online questionnaires. Also, people may not want to discuss personal questions with an interviewer. The method introduces interviewer bias—the way interviewers talk, how they ask questions, and other differences that may affect respondents' answers. Finally, in this age of do-not-call lists and promotion-harassed consumers, potential survey respondents are increasingly hanging up on telephone interviewers rather than talking with them.

Personal interviewing takes two forms: individual interviewing and group interviewing. Individual interviewing involves talking with people in their homes or offices, on the street, or Researchers and marketers watch the focus group discussions from behind one-way glass and record comments in writing or on video for later study. Today, focus group researchers can even use videoconferencing and Internet technology to connect marketers in distant locations with live focus group action. Using cameras and two-way sound systems, marketing executives in a far-off boardroom can look in and listen, using remote controls to zoom in on faces and pan the focus group at will.

Online Marketing Research. The growth of the Internet has had a dramatic impact on the conduct of marketing research. Increasingly, researchers are collecting primary data through **online marketing research**: Internet surveys, online panels, experiments, and online focus groups. By one estimate, U.S. online research spending reached an estimated $4.45 billion last year and is growing at 15–20 percent per year. Online research can take many forms. A company can use the Web as a survey medium: It can include a questionnaire on its Web site and offer incentives for completing it. It can use e-mail,Web links, orWeb pop-ups to invite people to answer questions. It can create online panels that provide regular feedback or conduct live discussions or online focus groups.

Beyond surveys, researchers can conduct experiments on the Web. They can experiment with different prices, headlines, or product features on different Web sites or at different times to learn the relative effectiveness of their offers. Or they can set up virtual shopping environments and use them to test new products and marketing programs. Finally, a company can learn about the behavior of online customers by following their click streams as they visit the Web site and move to other sites.

The Internet is especially well suited to quantitative research—conducting marketing surveys and collecting data. Close to three-quarters of all Americans now have access to the Web, making it a fertile channel for reaching a broad cross section of consumers. As response rates for traditional survey approaches decline and costs increase, the Web is quickly replacing mail and the telephone as the dominant data collection methodology. Online research now accounts for about 50 percent of all survey research done in the United States. Web-based survey research offers some real advantages over traditional phone, mail, and personal interviewing approaches. The most obvious advantages are speed and low costs. By going online, researchers can quickly and easily distribute Internet surveys to thousands of respondents simultaneously via e-mail or by posting them on selected Web sites. Responses can be almost instantaneous, and because respondents themselves enter the information, researchers can tabulate, review, and share research data as they arrive. Online research usually costs much less than research conducted through mail, phone, or personal interviews. Using the Internet eliminates most of the postage, phone, interviewer, and data-handling costs associated with the other approaches. As a result, Internet surveys typically cost 15–20 percent less than mail surveys and 30 percent less than phone surveys. Moreover, sample size has little impact on costs. Once the questionnaire is set up, there’s little difference in cost between 10 respondents and 10,000 respondents on the Web.

A primary qualitative Web-based research approach is **online focus groups**. Such focus groups offer many advantages over traditional focus groups. Participants can log in from anywhere; all they need is a laptop and a Web connection. Thus, the Internet works well for bringing together people from different parts of the country or world, especially those in higher-income groups who can’t spare the time to travel to a central site. Also, researchers can conduct and monitor online focus groups from just about anywhere, eliminating travel, lodging, and facility costs. Finally, although online focus groups require some advance scheduling, results are almost immediate. Online focus groups can take any of several formats. Most occur in real time, in the form of online chat room discussions in which participants and a moderator sit around a virtual table exchanging comments. Alternatively, researchers might set up an online message board on which respondents interact over the course of several days or a few weeks. Participants log in daily and comment on focus group topics.

Sampling Plan

Marketing researchers usually draw conclusions about large groups of consumers by studying a small sample of the total consumer population. A**sample** is a segment of the population selected for marketing research to represent the population as a whole. Ideally, the sample should be representative so that the researcher can make accurate estimates of the thoughts and behaviors of the larger population.

Designing the sample requires three decisions. First, who is to be studied (what sampling unit)? The answer to this question is not always obvious. For example, to learn about the decision-making process for a family automobile purchase, should the subject be the husband, the wife, other family members, dealership salespeople, or all of these? Second, how many people should be included (what sample size)? Large samples give more reliable results than small samples. However, larger samples usually cost more, and it is not necessary to sample the entire target market or even a large portion to get reliable results.

Probability Sample

Simple random sample Every member of the population has a known and equal chance of selection. Stratified random sample The population is divided into mutually exclusive groups (such as age groups), and random samples are drawn from each group.

Cluster (area) sample The population is divided into mutually exclusive groups (such as blocks), and the researcher draws a sample of the groups to interview.

Nonprobability Sample

Convenience sample The researcher selects the easiest population members from which to obtain information.Judgment sample The researcher uses his or her judgment to select population members who are good prospects for accurate information.

Quota sample The researcher finds and interviews a prescribed number of people in each of several categories. a rainy day in January. All that data streams through myriad computer networks, where it's sorted, cataloged, analyzed, and then used to deliver ads aimed squarely at you, potentially anywhere you travel on the Web. It's called behavioral targeting—tracking consumers' online behavior and using it to target ads to them. So, for example, if you place a cell phone in your Amazon.com shopping cart but don't buy it, you might expect to see some ads for that very type of phone the next time you visit your favorite

Research Instruments

In collecting primary data, marketing researchers have a choice of two main research instruments: the questionnaire and mechanical devices.

Questionnaires. The questionnaire is by far the most common instrument, whether administered in person, by phone, by e-mail, or online. Questionnaires are very flexible— there are many ways to ask questions. Closed-end questions include all the possible answers, and subjects make choices among them. Examples include multiple-choice questions and scale questions. Open-end questions allow respondents to answer in their own words. In a survey of airline users, Southwest Airlines might simply ask, "What is your opinion of Southwest Airlines?" Or it might ask people to complete a sentence: "When I choose an airline, the most important consideration is. . . ." These and other kinds of openend questions often reveal more than closed-end questions because they do not limit respondents' answers.

Open-end questions are especially useful in exploratory research, when the researcher is trying to find out what people think but is not measuring how many people think in a certain way. Closed-end questions, on the other hand, provide answers that are easier to interpret and tabulate.

Researchers should also use care in the wording and ordering of questions. They should use simple, direct, and unbiased wording. Questions should be arranged in a logical order. The first question should create interest if possible, and difficult or personal questions should be asked last so that respondents do not become defensive.

Mechanical Instruments. Although questionnaires are the most common research instrument, researchers also use mechanical instruments to monitor consumer behavior. Nielsen Media Research attaches people meters to television sets, cable boxes, and satellite systems in selected homes to record who watches which programs. Retailers use checkout scanners to record shoppers' purchases. Other mechanical devices measure subjects' physical responses. For example, consider Disney Media Networks' new consumer research lab in Austin, Texas:23 A technician in a black lab coat gazed at the short, middle-aged man seated inside Disney's secretive new research facility, his face shrouded with eye-tracking goggles. "Read ESPN.com on that BlackBerry," she told him soothingly, like a nurse about to draw blood. "And have fun," she added, leaving the room. In reality, the man's appetite for sports news was not of interest. (The site was a fake version anyway.) Rather, the technician and her fellow researchers from Disney Media Networks—which includes ABC, ESPN, and other networks—were eager to know how the man responded to ads of varying size. How small could the banners become and still draw his attention? A squadron of Disney executives scrutinized the data as it flowed in real time onto television monitors in an adjacent room. "He's not even looking at the banner now," said one researcher. The man clicked to another page. "There we go, that one's drawing his attention." The tools are advanced: In addition to tracking eye movement, the research team uses heart-rate monitors, skin temperature readings, and facial expressions (probes are attached to facial muscles) to gauge reactions. The goal: to learn what works and what does not in the high- takes game of new media advertising.

Still other researchers are applying "neuromarketing," measuring brain activity to learn how consumers feel and respond. Marketing scientists using MRI scans and EEG devices have learned that tracking brain electrical activity and blood flow can provide companies with insights into what turns consumers on and off regarding their brands and marketing. "Companies have always aimed for the customers heart, but the head may make a better target," suggests one neuromarketer. "Neuromarketing is reaching consumers where the action is: the brain."

Analyzing and Using Marketing Information

Information gathered in internal databases and through competitive marketing intelligence and marketing research usually requires additional analysis. Managers may need help applying the information to gain customer and market insights that will improve their marketing decisions. This help may include advanced statistical analysis to learn more about the relationships within a set of data. Information analysis might also involve the application of analytical models that will help marketers make better decisions.

Once the information has been processed and analyzed, it must be made available to the right decision makers at the right time. In the following sections, we look deeper into analysing and using marketing information.

Customer Relationship Management

The question of how best to analyze and use individual customer data presents special problems. Most companies are awash in information about their customers. In fact, smart companies capture information at every possible customer touch point. These touch points include customer purchases, sales force contacts, service and support calls, Web site visits, satisfaction surveys, credit and payment interactions, market research studies—every contact between a customer and a company.

Unfortunately, this information is usually scattered widely across the organization. It is buried deep in the separate databases and records of different company departments. To overcome such problems, many companies are now turning to **customer relationship management (CRM)** to manage detailed information about individual customers and carefully manage customer touch points to maximize customer loyalty.

CRM first burst onto the scene in the early 2000s. Many companies rushed in, implementing overly ambitious CRM programs that produced disappointing results and many failures. More recently, however, companies are moving ahead more cautiously and implementing CRM systems that really work. Last year, companies worldwide spent $7.8 billion on CRM systems from companies such as Oracle, Microsoft, Salesforce.com, and SAS, up 14.2 percent from the previous year. By 2012, they will spend an estimated $13.3 billion onCRMsystems.

CRM consists of sophisticated software and analytical tools that integrate customer information from all sources, analyze it in depth, and apply the results to build stronger customer relationships. CRM integrates everything that a company's sales, service, and marketing teams know about individual customers, providing a 360-degree view of the customer relationship.

CRM analysts develop data warehouses and use sophisticated data mining techniques to unearth the riches hidden in customer data. Adata warehouse is a company-wide electronic database of finely detailed customer information that needs to be sifted through for gems. The purpose of a data warehouse is not only to gather information but also pull it together into a central, accessible location. Then, once the data warehouse brings the data together, the company uses high-powered data mining techniques to sift through the mounds of data and dig out interesting findings about customers. These findings often lead to marketing opportunities. For example, Walmart's huge database provides deep insights for marketing decisions. A few years ago, as Hurricane Ivan roared toward the Florida coast, reports one observer, the giant retailer "knew exactly what to rush onto the shelves of stores in the hurricane's path—strawberry Pop Tarts.

Other Marketing Information Considerations

This section discusses marketing information in two special contexts: marketing research in small businesses and nonprofit organizations and international marketing research. Finally, we look at public policy and ethics issues in marketing research. Marketing Research in Small Businesses and Nonprofit Organizations

Just like larger firms, small organizations need market information and the customer and market insights that it can provide. Managers of small businesses and nonprofit organizations often think that marketing research can be done only by experts in large companies with big research budgets. True, large-scale research studies are beyond the budgets of most small businesses. However, many of the marketing research techniques discussed in this unit also can be used by smaller organizations in a less formal manner and at little or no expense. Consider how one small-business owner conducted market research on a shoestring before even opening his doors:

International Marketing Research

International marketing research has grown tremendously over the past decade. International researchers follow the same steps as domestic researchers, from defining the research problem and developing a research plan to interpreting and reporting the results. However, these researchers often face more and different problems. Whereas domestic researchers deal with fairly homogeneous markets within a single country, international researchers deal with diverse markets in many different countries. These markets often vary greatly in their levels of economic development, cultures and customs, and buying patterns.

Misuse of Research Findings

Research studies can be powerful persuasion tools; companies often use study results as claims in their advertising and promotion. Today, however, many research studies appear to be little more than vehicles for pitching the sponsor's products. In fact, in some cases, the research surveys appear to have been designed just to produce the intended effect. Few advertisers openly rig their research designs or blatantly misrepresent the findings; most abuses tend to be more subtle "stretches." Consider the following example: Based on a scientific study, the Kellogg Company recently proclaimed in ads and on packaging for Frosted Mini-Wheats that the cereal was "clinically shown to improve kids attentiveness by nearly 20%." When challenged by the Federal Trade Commission, however, the claims turned out to be a substantial stretch of the study results. Fine print at the bottom of the box revealed the following: "Based upon independent clinical research, kids who ate Kellogg's Frosted Mini-Wheats cereal for breakfast had up to 18 percent better attentiveness three hours after breakfast than kids who ate no breakfast." That is, as one critic noted, "Frosted Mini-Wheats are (up to) 18 percent better than starving." Moreover, according to the FTC complaint, the clinical study referred to by Kellogg actually showed that children who ate the cereal for breakfast averaged just under 11 percentbetter in attentiveness than children who ate no breakfast, andthat only about one in nine improved by 20 percent or more.

REVIEW QUESTIONS

1. Discuss the real value of marketing research and marketing information and how that value is attained.

2. Discuss the sources of internal data and the advantages and disadvantages associated with this data.

3. Explain the role of secondary data in gaining customer insights. Where do marketers obtain secondary data, and what are the potential problems in using such data?

4. What are the advantages of Web-based survey research over traditional survey research?

5. Compare open-ended and closed-ended questions. When and for what is each type of question useful in marketing research?

6. What are the similarities and differences when conducting research in another country versus the domestic market?

FURTHER READINGS

1. Marketing management-S.Jaychandran
2. Marketing managemen tand strategy-Peter dayal, Philip stern
3. Marketing management-Dhawan and sundaram
4. Marketing management-s.h.h. kajami
5. Marketing management-montgue brown

IMPORTANT NOTES

UNIT-5 CONSUMER MARKETS AND CONSUMER BUYER BEHAVIOR

CONTENTS

Model of Consumer Behavior

Consumers make many buying decisions every day, and the buying decision is the focal point of the marketer's effort. Most large companies research consumer buying decisions in great detail to answer questions about what consumers buy, where they buy, how and how much they buy, when they buy, and why they buy. Marketers can study actual consumer purchases to find out what they buy, where, and how much. But learning about the whys of consumer buying behavior is not so easy—the answers are often locked deep within the consumer's mind.

Often, consumers themselves don't know exactly what influences their purchases. "The human mind doesn't work in a linear way," says one marketing expert. "The idea that the mind is a computer with storage compartments where brands or logos or recognizable packages are stored in clearly marked folders that can be accessed by cleverly written ads or commercials simply doesn't exist. Instead, the mind is a whirling, swirling, jumbled mass of neurons bouncing around, colliding and continuously creating new concepts and thoughts and relationships inside every single person's brain all over the world."

The central question for marketers is as follows: How do consumers respond to various marketing efforts the company might use? The starting point is the stimulus-response model of buyer behavior shown in. This figure shows that marketing and other stimuli enter the consumer's "black box" and produce certain responses. Marketers must figure out what is in the buyer's black box. Marketing stimuli consist of the four Ps: product, price, place, and promotion. Other stimuli include major forces and events in the buyer's environment: economic, technological, political, and cultural. All these inputs enter the buyer's black box, where they are turned into a set of buyer responses: the buyer's brand and company relationship behaviour and what he or she buys, when, where, and how often.

Characteristics Affecting Consumer Behavior

Consumer purchases are influenced strongly by cultural, social, personal, and psychological characteristics,. For the most part, marketers cannot control such factors, but they must take them into account. 1

Cultural Factors

Cultural factors exert a broad and deep influence on consumer behavior. Marketers need to understand the role played by the buyer's culture, subculture, and social class.

Culture

Culture is the most basic cause of a person's wants and behavior. Human behavior is largely learned. Growing up in a society, a child learns basic values, perceptions, wants, and behaviors from his or her family and other important institutions. Achild in the United States normally learns or is exposed to the following values: achievement and success, individualism, freedom, hard work, activity and involvement, efficiency and practicality, material comfort, youthfulness, and fitness and health. Every group or society has a culture, and cultural influences on buying behavior may vary greatly from country to country. A failure to adjust to these differences can result in ineffective marketing or embarrassing mistakes.

Marketers are always trying to spot cultural shifts so as to discover new products that might be wanted. For example, the cultural shift toward greater concern about health and fitness has created a huge industry for health-and-fitness services, exercise equipment and clothing, organic foods, and a variety of diets. The shift toward informality has resulted in more demand for casual clothing and simpler home furnishings.

Subculture

Each culture contains smaller **subcultures**, or groups of people with shared value systems based on common life experiences and situations. Subcultures include nationalities, religions, racial groups, and geographic regions. Many subcultures make up important market segments, and marketers often design products and marketing programs tailored to their needs. Examples of four such important subculture groups include Hispanic American, African American, Asian American, and mature consumers.

Social Class

Almost every society has some form of social class structure. **Social classes** are society's relatively permanent and ordered divisions whose members share similar values, interests, and behaviors.Social class is not determined by a single factor, such as income, but is measured as a combination of occupation, income, education, wealth, and other variables. In some social systems, members of different classes are reared for certain roles and cannot change their social positions. In the United States, however, the lines between social classes are not fixed and rigid; people can move to a higher social class or drop into a lower one.

Marketers are interested in social class because people within a given social class tend to exhibit similar buying behavior. Social classes show distinct product and brand preferences in areas such as clothing, home furnishings, leisure activity, and automobiles. Social Factors

A consumer's behavior also is influenced by social factors, such as the consumer's small groups, family, and social roles and status.

Groups and Social Networks

Many small **groups** influence a person's behavior. Groups that have a direct influence and to which a person belongs are called membership groups. In contrast, reference groups serve as direct (face-to-face) or indirect points of comparison or reference in forming a person's attitudes or behavior. People often are influenced by reference groups to which they do not belong. For example, an aspirational group is one to which the individual wishes to belong, as when a young basketball player hopes to someday emulate basketball star LeBron James and play in the National Basketball Association (NBA).

Marketers try to identify the reference groups of their target markets. Reference groups expose a person to new behaviors and lifestyles, influence the person's attitudes and self concept, and create pressures to conform that may affect the person's product and brand choices. The importance of group influence varies across products and brands. It tends to be strongest when the product is visible to others whom the buyer respects.

Word-of-Mouth Influence and Buzz Marketing. Word-of-mouth influence can have a powerful impact on consumer buying behavior. The personal words and recommendations of trusted friends, associates, and other consumers tend to be more credible than those coming from commercial sources, such as advertisements or salespeople. Most word-of-mouth influence happens naturally: Consumers start chatting about a brand they use or feel strongly about one way or the other. Often, however, rather than leaving it to chance, marketers can help to create positive conversations about their brands.

Marketers of brands subjected to strong group influence must figure out how to reach **opinion leaders**—people within a reference group who, because of special skills, knowledge, personality, or other characteristics, exert social influence on others. Some experts call this group the influentials or leading adopters. When these influentials talk, consumers listen.

Marketers try to identify opinion leaders for their products and direct marketing efforts toward them. Buzz marketing involves enlisting or even creating opinion leaders to serve as "brand ambassadors" who spread the word about a company's products. Many companies now create brand ambassador programs in an attempt to turn influential but everyday customers into brand evangelists. Arecent study found that such programs can increase the effectiveness of word-ofmouth marketing efforts by as much as 50 percent.16 For example, JetBlue's CrewBlue program employs real customers to create buzz on college campuses.

Upper Class

Upper Uppers (1 percent): The social elite who live on inherited wealth. They give large sums to charity, own more than one home, and send their children to the finest schools.

Lower Uppers (2 percent): Americans who have earned high income or wealth through exceptional ability. They are active in social and civic affairs and buy expensive homes, educations, and cars.

Middle Class

Upper Middles (12 percent): Professionals, independent businesspersons, and corporate managers who possess neither family status nor unusual wealth. They believe in education, are joiners and highly civic minded, and want the "better things in life."

Middle Class (32 percent): Average-pay white- and blue-collar workers who live on "the better side of town." They buy popular products to keep up with trends. Better living means owning a nice home in a nice neighborhood with good schools.

Working Class

Working Class (38 percent): Those who lead a "working-class lifestyle," whatever their income, school background, or job. They depend heavily on relatives for economic and emotional support, advice on purchases, and assistance in times of trouble.

Lower Class

Upper Lowers (9 percent): The working poor. Although their living standard is just above poverty, they strive toward a higher class. However, they often lack education and are poorly paid for unskilled work.

Lower Lowers (7 percent): Visibly poor, often poorly educated unskilled laborers. They are often out of work, and some depend on public assistance. They tend to live a day-to-day existence.

Online Social Networks. Over the past few years, a new type of social interaction has exploded onto the scene—online social networking. **Online social networks** are online communities where people socialize or exchange information and opinions. Social networking media range from blogs (Gizmodo) and message boards (Craigslist) to social networking Web sites (Facebook and Twitter) and virtual worlds (Second Life). This new form of consumer-to-consumer and business-to-consumer dialog has big implications for marketers.

Family

Family members can strongly influence buyer behavior. The family is the most important consumer buying organization in society, and it has been researched extensively. Marketers are interested in the roles and influence of the husband, wife, and children on the purchase of different products and services.

Husband-wife involvement varies widely by product category and by stage in the buying process. Buying roles change with evolving consumer lifestyles. In the United States, the wife traditionally has been the main purchasing agent for the family in the areas of food, household products, and clothing. But with 70 percent of women holding jobs outside the home and the willingness of husbands to do more of the family's purchasing, all this is changing. A recent study found that 65 percent of men grocery shop regularly and prepare at least one meal a week for others in the household. At the same time, women now influence 65 percent of all new car purchases, 91 percent of new home purchases, and 92 percent of vacation purchases. In all, women make almost 85 percent of all family purchases and control some 73 percent of all household spending. Says one analyst, "today's woman is . . . the designated chief operating officer of the home."

Roles and Status

A person belongs to many groups—family, clubs, organizations, online communities. The person's position in each group can be defined in terms of both role and status. A role consists of the activities people are expected to perform according to the people around them. Each role carries a status reflecting the general esteem given to it by society. People usually choose products appropriate to their roles and status. Consider the various roles a working mother plays. In her company, she plays the role of a brand manager; in her family, she plays the role of wife and mother; at her favourite sporting events, she plays the role of avid fan. As a brand manager, she will buy the kind of clothing that reflects her role and status in her company.

Personal Factors

A buyer's decisions also are influenced by personal characteristics such as the buyer's age and life-cycle stage, occupation, economic situation, lifestyle, and personality and self-concept.

Age and Life-Cycle Stage

People change the goods and services they buy over their lifetimes. Tastes in food, clothes, furniture, and recreation are often age related. Buying is also shaped by the stage of the family life cycle—the stages through which families might pass as they mature over time. Life stage changes usually result from demographics and life-changing events—marriage, having children, purchasing a home, divorce, children going to college, changes in personal income, moving out of the house, and retirement. Marketers often define their target markets in terms of life-cycle stage and develop appropriate products and marketing plans for each stage.

Occupation

A person's occupation affects the goods and services bought. Blue-collar workers tend to buy more rugged work clothes, whereas executives buy more business suits. Marketers try to identify the occupational groups that have an above-average interest in their products and services. A company can even specialize in making products needed by a given occupational group.

Economic Situation

Aperson's economic situation will affect his or her store and product choices. Marketers watch trends in personal income, savings, and interest rates. Following the recent recession, most companies have taken steps to redesign, reposition, and reprice their products. For example, at Target, to counter the effects of the recession, "cheap has taken over chic." The discount retailer unveiled "The Great Save," a nationwide event featuring low prices on a variety of products. "The Great Save is a way for Target to offer our guests exceptional deals on everyday essentials—a treasure-hunt experience with a variety of exciting designer brands," says a Target marketing vice president. "This event is a fresh approach to meeting our guests' evolving needs [by letting them] save even more at Target." Says another Target marketer, "Our [tagline] is 'Expect more. Pay less. We're putting more emphasis on the pay less promise."

Lifestyle

People coming from the same subculture, social class, and occupation may have quite different lifestyles. **Lifestyle** is a person's pattern of living as expressed in his or her psychographics. It involves measuring consumers' major AIO dimensions—activities (work, hobbies, shopping, sports, social events), interests (food, fashion, family, recreation), and opinions (about themselves, social issues, business, products). Lifestyle captures something more than the person's social class or personality. It profiles a person's whole pattern of acting and interacting in the world.

Personality and Self-Concept

Each person's distinct personality influences his or her buying behavior. **Personality** refers to the unique psychological characteristics that distinguish a person or group. Personality is usually described in terms of traits such as self-confidence, dominance, sociability, autonomy, defensiveness, adaptability, and aggressiveness. Personality can be useful in analysing consumer behavior for certain product or brand choices.

The idea is that brands also have personalities, and consumers are likely to choose brands with personalities that match their own.Abrand personality is the specific mix of human traits that may be attributed to a particular brand. One researcher identified five brand personality traits: sincerity (down-to-earth, honest, wholesome, and cheerful); excitement (daring, spirited, imaginative, and up-to-date); competence (reliable, intelligent, and successful); sophistication (upper class and charming); and ruggedness (outdoorsy and tough).

Motivation

Aperson has many needs at any given time. Some are biological, arising from states of ension such as hunger, thirst, or discomfort. Others are psychological, arising from the need for recognition, esteem, or belonging. Aneed becomes a motive when it is aroused to a sufficient level of intensity. A **motive** (or **drive**) is a need that is sufficiently pressing to direct the person to seek satisfaction. Psychologists have developed theories of human motivation.

Two of the most popular—the theories of Sigmund Freud and Abraham Maslow—have quite different meanings for consumer analysis and marketing.

Perception

A motivated person is ready to act. How the person acts is influenced by his or her own perception of the situation. All of us learn by the flow of information through our five senses: sight, hearing, smell, touch, and taste. However, each of us receives, organizes, and interprets this sensory information in an individual way. **Perception** is the process by which people select, organize, and interpret information to form a meaningful picture of the world. People can form different perceptions of the same stimulus because of three perceptual processes: selective attention, selective distortion, and selective retention. People are exposed to a great amount of stimuli every day. For example, people are exposed to an estimated 3,000 to 5,000 ad messages every day. It is impossible for a person to pay attention to all these stimuli. Selective attention—the tendency for people to screen out most of the information to which they are exposed—means that marketers must work especially hard to attract the consumer's attention.

Learning

When people act, they learn. **Learning** describes changes in an individual's behavior arising from experience. Learning theorists say that most human behavior is learned. Learning occurs through the interplay of drives, stimuli, cues, responses, and reinforcement. A drive is a strong internal stimulus that calls for action. A drive becomes a motive when it is directed toward a particular stimulus object. For example, a person's drive for self actualization might motivate him or her to look into buying a camera. The consumer's response to the idea of buying a camera is conditioned by the surrounding cues. Cues are minor stimuli that determine when, where, and how the person responds. For example, the person might spot several camera brands in a shop window, hear of a special sale price, or discuss cameras with a friend. These are all cues that might influence a consumer's response to his or her interest in buying the product.

Beliefs and Attitudes

Through doing and learning, people acquire beliefs and attitudes. These, in turn, influence their buying behavior. A **belief** is a descriptive thought that a person has about something. Beliefs may be based on real knowledge, opinion, or faith and may or may not carry an emotional charge. Marketers are interested in the beliefs that people formulate about specific products and services because these beliefs make up product and brand images that affect buying behavior. If some of the beliefs are wrong and prevent purchase, the marketer will want to launch a campaign to correct them.

People have attitudes regarding religion, politics, clothes, music, food, and almost everything else. **Attitude** describes a person's relatively consistent evaluations, feelings, and tendencies toward an object or idea. Attitudes put people into a frame of mind of liking or disliking things, of moving toward or away from them. Our camera buyer may hold attitudes such as "Buy the best," "The Japanese make the best electronics products in the world," and "Creativity and self-expression are among the most important things in life." If so, the Nikon camera would fit well into the consumer's existing attitudes. Attitudes are difficult to change. A person's attitudes fit into a pattern; changing one attitude may require difficult adjustments in many others. Thus, a company should usually try to fit its products into existing attitudes rather than attempt to change attitudes.

Types of Buying Decision Behavior

Buying behavior differs greatly for a tube of toothpaste, an iPhone, financial services, and a new car. More complex decisions usually involve more buying participants and more buyer deliberation. Complex Buying Behavior Consumers undertake **complex buying behavior** when they are highly involved in a purchase and perceive significant differences among brands. Consumers may be highly involved when the product is expensive, risky, purchased infrequently, and highly self-expressive. Typically, the consumer has much to learn about the product category.

Dissonance-reducing buying behavior occurs when consumers are highly involved with an expensive, infrequent, or risky purchase but see little difference among brands. For example, consumers buying carpeting may face a high-involvement decision because carpeting is expensive and self-expressive. Yet buyers may consider most carpet brands in a given price range to be the same. In this case, because perceived brand differences are not large, buyers may shop around to learn what is available but buy relatively quickly. They may respond primarily to a good price or purchase convenience. After the purchase, consumers might experience post purchase dissonance (after-sale discomfort) when they notice certain disadvantages of the purchased carpet brand or hear favourable things about brands not purchased. To counter such dissonance, the marketer's after-sale communications should provide evidence and support to help consumers feel good about their brand choices.

Habitual buying behavior occurs under conditions of low-consumer involvement and little significant brand difference. For example, take table salt. Consumers have little involvement in this product category—they simply go to the store and reach for a brand. If they keep reaching for the same brand, it is out of habit rather than strong brand loyalty. Consumers appear to have low involvement with most low-cost, frequently purchased products.

In such cases, consumer behavior does not pass through the usual belief-attitude behavior sequence. Consumers do not search extensively for information about the brands, evaluate brand characteristics, and make weighty decisions about which brands to buy. Instead, they passively receive information as they watch television or read magazines. Ad repetition creates brand familiarity rather than brand conviction. Consumers do not form strong attitudes toward a brand; they select the brand because it is familiar. Because they are not highly involved with the product, consumers may not evaluate the choice, even after purchase. Thus, the buying process involves brand beliefs formed by passive learning, followed by purchase behavior, which may or may not be followed by evaluation.

Because buyers are not highly committed to any brands, marketers of low-involvement products with few brand differences often use price and sales promotions to promote buying.

Alternatively, they can add product features or enhancements to differentiate their brands from the rest of the pack and raise involvement. For example, to set its brand apart, Charmin toilet tissue offers Ultrastrong, Ultrasoft, and Freshmate (wet) versions that are so absorbent that you can "soften your bottom line" by using four times less than value brands. Charmin also raises brand involvement by sponsoring a "Sit or Squat"Web site and cell phone app that helps travelers who "Gotta go on the go!" find and rate clean public restrooms.

Variety-Seeking Buying Behavior

Consumers undertake **variety-seeking buying behavior** in situations characterized by low consumer involvement but significant perceived brand differences. In such cases, consumers often do a lot of brand switching. For example, when buying cookies, a consumer may hold some beliefs, choose a cookie brand without much evaluation, and then evaluate that brand during consumption. But the next time, the consumer might pick another brand out of boredom or simply to try something different. Brand switching occurs for the sake of variety rather than because of dissatisfaction.

In such product categories, the marketing strategy may differ for the market leader and minor brands. The market leader will try to encourage habitual buying behavior by dominating shelf space, keeping shelves fully stocked, and running frequent reminder advertising. Challenger firms will encourage variety seeking by offering lower prices, special deals, coupons, free samples, and advertising that presents reasons for trying something new.

The Buyer Decision Process

Now that we have looked at the influences that affect buyers, we are ready to look at how consumers make buying decisions.

.Need Recognition

The buying process starts with **need recognition**—the buyer recognizes a problem or need. The need can be triggered by internal stimuli when one of the person's normal needs—for example, hunger or thirst—rises to a level high enough to become a drive. A need can also be triggered by external stimuli. For example, an advertisement or a discussion with a friend might get you thinking about buying a new car. At this stage, the marketer should research consumers to find out what kinds of needs or problems arise, what brought them about, and how they led the consumer to this particular product.

Information Search

An interested consumer may or may not search for more information. If the consumer's drive is strong and a satisfying product is near at hand, he or she is likely to buy it then. If not, the information **search** related to the need. For example, once you've decided you need a new car, at the least, you will probably pay more attention to car ads, cars owned by friends, and car conversations. Or you may actively search the Web, talk with friends, and gather information in other ways. Consumers can obtain information from any of several sources. These include personal sources (family, friends, neighbors, acquaintances), commercial sources (advertising, salespeople, dealer Web sites, packaging, displays), public sources (mass media, consumer rating organizations, Internet searches), and experiential sources (handling, examining, using the product). The relative influence of these information sources varies with the product and the buyer.

Evaluation of Alternatives

We have seen how consumers use information to arrive at a set of final brand choices. How does the consumer choose among alternative brands? Marketers need to know about **alternative evaluation**, that is, how the consumer processes information to arrive at brand choices. Unfortunately, consumers do not use a simple and single evaluation process in all buying situations. Instead, several evaluation processes are at work. The consumer arrives at attitudes toward different brands through some evaluation procedure.

How consumers go about evaluating purchase alternatives depends on the individual consumer and the specific buying situation. In some cases, consumers use careful calculations and logical thinking. At other times, the same consumers do little or no evaluating; instead they buy on impulse and rely on intuition. Sometimes consumers make buying decisions on their own; sometimes they turn to friends, online reviews, or salespeople for buying advice. Suppose you've narrowed your car choices to three brands. And suppose that you are primarily interested in four attributes—styling, operating economy, warranty, and price. By this time, you've probably formed beliefs about how each brand rates on each attribute. Clearly, if one car rated best on all the attributes, the marketer could predict that you would choose it. However, the brands will no doubt vary in appeal. You might base your buying decision on only one attribute, and your choice would be easy to predict. If you wanted styling above everything else, you would buy the car that you think has the best styling. But most buyers consider several attributes, each with different importance. If the marketer knew the importance that you assigned to each attribute, he or she could predict your car choice more reliably.

Marketers should study buyers to find out how they actually evaluate brand alternatives. If marketers know what evaluative processes go on, they can take steps to influence the buyer's decision.

Purchase Decision

In the evaluation stage, the consumer ranks brands and forms purchase intentions. Generally, the consumer's **purchase decision** will be to buy the most preferred brand, but two factors can come between the purchase intention and the purchase decision. The first factor is the attitudes of others. If someone important to you thinks that you should buy the lowest priced car, then the chances of you buying a more expensive car are reduced.

The second factor is unexpected situational factors. The consumer may form a purchase intention based on factors such as expected income, expected price, and expected product benefits. However, unexpected events may change the purchase intention. For example, the economy might take a turn for the worse, a close competitor might drop its price, or a friend might report being disappointed in your preferred car. Thus, preferences and even purchase intentions do not always result in actual purchase choice.

Postpurchase Behavior

The marketer's job does not end when the product is bought. After purchasing the product, the consumer will either be satisfied or dissatisfied and will engage in **postpurchase behavior** of interest to the marketer. What determines whether the buyer is satisfied or dissatisfied with a purchase? The answer lies in the relationship between the consumer's expectations and the product's perceived performance. If the product falls short of expectations, the consumer is disappointed; if it meets expectations, the consumer is satisfied; if it exceeds expectations, the consumer is delighted. The larger the gap between expectations and performance, the greater the consumer's dissatisfaction. This suggests that sellers should promise only what their brands can deliver so that buyers are satisfied. Almost all major purchases, however, result in **cognitive dissonance**, or discomfort caused by postpurchase conflict. After the purchase, consumers are satisfied with the benefits of the chosen brand and are glad to avoid the drawbacks of the brands not bought. However, every purchase involves compromise. So consumers feel uneasy about acquiring the drawbacks of the chosen brand and about losing the benefits of the brands not purchased

We have looked at the stages buyers go through in trying to satisfy a need. Buyers may pass quickly or slowly through these stages, and some of the stages may even be reversed. Much depends on the nature of the buyer, the product, and the buying situation.

We now look at how buyers approach the purchase of new products. A**new product** is a good, service, or idea that is perceived by some potential customers as new. It may have been around for a while, but our interest is in how consumers learn about products for the first time and make decisions on whether to adopt them. We define the **adoption process** as “the mental process through which an individual passes from first learning about an innovation to final adoption,” and adoption as the decision by an individual to become a regular user of the product.

Stages in the Adoption Process

Consumers go through five stages in the process of adopting a new product:

Awareness: The consumer becomes aware of the new product but lacks information about it. Interest: The consumer seeks information about the new product.

Evaluation: The consumer considers whether trying the new product makes sense.

Trial: The consumer tries the new product on a small scale to improve his or her estimate of its value.

Adoption: The consumer decides to make full and regular use of the new product.

This model suggests that the new-product marketer should think about how to help consumers move through these stages. For example, during the recent recession, Hyundai developed a unique way to help customers get past evaluation and make a positive purchase decision about a new vehicle.

Individual Differences in Innovativeness

People differ greatly in their readiness to try new products. In each product area, there are “consumption pioneers” and early adopters. Other individuals adopt new products much later. People can be classified into the adopter categories shown in after a slow start, an increasing number of people adopt the new product. The number of adopters reaches a peak and then drops off as fewer nonadopters remain. As successive groups of consumers adopt the innovation (the red curve), it eventually reaches its saturation level. Innovators are defined as the first 2.5 percent of buyers to adopt

a new idea (those beyond two standard deviations from mean adoption time); the early adopters are the next 13.5 percent (between one and two standard deviations); and so forth.

The five adopter groups have differing values. Innovators are venturesome—they try new ideas at some risk. Early adopters are guided by respect—they are opinion leaders in their communities and adopt new ideas early but carefully. The early majority is deliberate— although they rarely are leaders, they adopt new ideas before the average person. The late majority is skeptical—they adopt an innovation only after a majority of people have tried it. Finally, laggards are tradition bound—they are suspicious of changes and adopt the innovation only when it has become something of a tradition itself.

This adopter classification suggests that an innovating firm should research the characteristics of innovators and early adopters in their product categories and direct marketing efforts toward them.

Influence of Product Characteristics on Rate of Adoption

The characteristics of the new product affect its rate of adoption. Some products catch on almost overnight; for example, both the iPod and iPhone flew off retailers' shelves at an astounding rate from the day they were first introduced. Others take a longer time to gain acceptance. For example, the first HDTVs were introduced in the United States in the 1990s, but the percentage of U.S. households owning a high definition set stood at only 28 percent by 2007 and 62 percent by 2010.39

Five characteristics are especially important in influencing an innovation's rate of adoption. For example, consider the characteristics of HDTV in relation to the rate of adoption: Relative advantage: The degree to which the innovation appears superior to existing products.

Compatibility: The degree to which the innovation fits the values and experiences of potential consumers. HDTV, for example, is highly compatible with the lifestyles of the TV-watching public. However, in the early years, HDTV was not yet compatible with programming and broadcasting systems, which slowed adoption. Now, as more and more high definition programs and channels have become available, the rate of HDTV adoption has increased rapidly.

Complexity: The degree to which the innovation is difficult to understand or use. HDTVs are not very complex. Therefore, as more programming has become available and prices have fallen, the rate ofHDTVadoption is increasing faster than that of more complex innovations. Divisibility: The degree to which the innovation may be tried on a limited basis. Early HDTVs and HD cable and satellite systems were very expensive, which slowed the rate of adoption. As prices fall, adoption rates increase.

Communicability: The degree to which the results of using the innovation can be observed or described to others. Because HDTV lends itself to demonstration and description, its use will spread faster among consumers. Other characteristics influence the rate of adoption, such as initial and ongoing costs, risk and uncertainty, and social approval. The new-product marketer must research all these factors when developing the new product and its marketing program.

REVIEW QUESTIONS

1. Analyze the buyer decision process of a traditional Porsche customer.

2. Contrast the traditional Porsche customer decision process to the decision process for a Cayenne or a Panamera customer.

3. Which concepts from the unit explain why Porsche sold so many lower-priced models in the 1970s and 1980s?
4. Explain how both positive and negative attitudes toward a brand like Porsche develop. How might Porsche change consumer attitudes toward the brand?
5. What role does the Porsche brand play in the self-concept of its buyers?

FURTHER READINGS

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IMPORTANT NOTES

UNIT-6 BUSINESS MARKETS AND BUSINESS BUYER BEHAVIOR

CONTENTS

INTRODUCTION

Business buyer behavior refers to the buying behavior of the organizations that buy goods and services for use in the production of other products and services that are sold, rented, or supplied to others. It also includes the behavior of retailing and wholesaling firms that acquire goods to resell or rent them to others at a profit. In the **business buying process**, business buyers determine which products and services their organizations need to purchase and then find, evaluate, and choose among alternative suppliers and brands. Business-to-business (B-to-B) marketers must do their best to understand business markets and business buyer behavior. Then, like businesses that sell to final buyers, they must build profitable relationships with business customers by creating superior customer value.

Business Markets

The business market is huge. In fact, business markets involve far more dollars and items than do consumer markets. For example, think about the large number of business transactions involved in the production and sale of a single set of Goodyear tires. Various suppliers sell Goodyear the rubber, steel, equipment, and other goods that it needs to produce tires. Goodyear then sells the finished tires to retailers, who in turn sell them to consumers. Thus, many sets of business purchases were made for only one set of consumer purchases. In addition, Goodyear sells tires as original equipment to manufacturers that install them on new vehicles and as replacement tires to companies that maintain their own fleets of company cars, trucks, buses, or other vehicles.

In some ways, business markets are similar to consumer markets. Both involve people who assume buying roles and make purchase decisions to satisfy needs. However, business markets differ in many ways from consumer markets. The main differences are in market structure and demand, the nature of the buying unit, and the types of decisions and the decision process involved.

Market Structure and Demand

The business marketer normally deals with far fewer but far larger buyers than the consumer marketer does. Even in large business markets, a few buyers often account for most of the purchasing. For example, when Goodyear sells replacement tires to final consumers, its potential market includes the owners of the millions of cars currently in use around the world.

Further, business demand is **derived demand—**it ultimately comes from (derives from) the demand for consumer goods. HP and Dell buy Intel microprocessor chips to operate the computers they manufacture. If consumer demand for computers drops, so will the demand for microprocessors. Therefore, B-to-B marketers sometimes promote their products directly to final consumers to increase business demand. For example, W. L. Gore & Associates promotes its Gore-Tex fabrics directly to final consumers.

Business Buyer Behavior

At the most basic level, marketers want to know how business buyers will respond to various marketing stimuli. shows a model of business buyer behavior. In this model, marketing and other stimuli affect the buying organization and produce certain buyer responses. These stimuli enter the organization and are turned into buyer responses. To design good marketing strategies, marketers must understand what happens within the organization to turn stimuli into purchase responses. Within the organization, buying activity consists of two major parts: the buying center, composed of all the people involved in the buying decision, and the buying decision process. The model shows that the buying center and the buying decision process are influenced by internal organizational, interpersonal, and individual factors as well as external environmental factors.

Major Type of Buying Situations

There are three major types of buying situations.3 In a **straight rebuy**, the buyer reorders something without any modifications. It is usually handled on a routine basis by the purchasing department. To keep the business, “in” suppliers try to maintain product and service quality. “Out” suppliers try to find new ways to add value or exploit dissatisfaction so that the buyer will consider them.

In a **modified rebuy**, the buyer wants to modify product specifications, prices, terms, or suppliers. The in suppliers may become nervous and feel pressured to put their best foot forward to protect an account. Out suppliers may see the modified rebuy situation as an opportunity to make a better offer and gain new business.

A company buying a product or service for the first time faces a **new task** situation. In such cases, the greater the cost or risk, the larger the number of decision participants and the greater the company's efforts to collect information. The new task situation is the marketer's greatest opportunity and challenge. The marketer not only tries to reach as many key buying influences as possible but also provides help and information. The buyer makes the fewest decisions in the straight rebuy and the most in the new task decision.

Many business buyers prefer to buy a complete solution to a problem from a single seller rather than separate products and services from several suppliers and putting them together. The sale often goes to the firm that provides the most complete system for meeting the customer's needs and solving its problems. Such **systems selling** (or **solutions selling**) is often a key business marketing strategy for winning and holding accounts. Thus, transportation and logistics giant UPS does more than just ship packages for its business customers; it develops entire solutions to customers' transportation and logistics problems. For example, UPS bundles a complete system of services that support Nikon's consumer products supply chain—including logistics, transportation, freight, and customs brokerage services—into one smooth-running system.

Participants in the Business Buying Process

Who does the buying of the trillions of dollars' worth of goods and services needed by business organizations? The decision-making unit of a buying organization is called its **buying center**—all the individuals and units that play a role in the business purchase decisionmaking process. This group includes the actual users of the product or service, those who make the buying decision, those who influence the buying decision, those who do the actual buying, and those who control buying information.

The buying center includes all members of the organization who play any of five roles in the purchase decision process.

• **Users** are members of the organization who will use the product or service. In many cases, users initiate the buying proposal and help define product specifications.

• **Influencers** often help define specifications and also provide information for evaluating alternatives. Technical personnel are particularly important influencers.

• **Buyers** have formal authority to select the supplier and arrange terms of purchase. Buyers may help shape product specifications, but their major role is in selecting vendors and negotiating. In more complex purchases, buyers might include high-level officers participating in the negotiations.

• **Deciders** have formal or informal power to select or approve the final suppliers. In routine buying, the buyers are often the deciders, or at least the approvers.

• **Gatekeepers** control the flow of information to others. For example, purchasing agents often have authority to prevent salespersons from seeing users or deciders.

Other gatekeepers include technical personnel and even personal secretaries. The buying center is not a fixed and formally identified unit within the buying organization. It is a set of buying roles assumed by different people for different purchases. Within the organization, the size and makeup of the buying center will vary for different products and for different buying situations. For some routine purchases, one person—say, a purchasing agent—may assume all the buying center roles and serve as the only person involved in the buying decision. For more complex purchases, the buying center may include 20 or 30 people from different levels and departments in the organization. The buying center concept presents a major marketing challenge. The business marketer must learn who participates in the decision, each participant's relative influence, and what evaluation criteria each decision participant uses. This can be difficult.

Major Influences on Business Buyer Behavior

Environmental Factors

Business buyers are heavily influenced by factors in the current and expected economic environment, such as the level of primary demand, the economic outlook, and the cost of money. Another environmental factor is the supply of key materials. Many companies now are more willing to buy and hold larger inventories of scarce materials to ensure adequate supply. Business buyers also are affected by technological, political, and competitive developments in the environment. Finally, culture and customs can strongly influence business buyer reactions to the marketer's behavior and strategies, especially in the international marketing environment. The business buyer must watch these factors, determine how they will affect the buyer, and try to turn these challenges into opportunities.

Organizational Factors

Each buying organization has its own objectives, strategies, structure, systems, and procedures, and the business marketer must understand these factors well. Questions such as these arise: How many people are involved in the buying decision? Who are they? What are their evaluative criteria? What are the company's policies and limits on its buyers?

Interpersonal Factors

The buying center usually includes many participants who influence each other, so interpersonal factors also influence the business buying process. However, it is often difficult to assess such interpersonal factors and group dynamics. Buying center participants do not wear tags that label them as "key decision maker" or "not influential." Nor do buying centre participants with the highest rank always have the most influence. Participants may influence the buying decision because they control rewards and punishments, are well liked, have special expertise, or have a special relationship with other important participants. Interpersonal factors are often very subtle. Whenever possible, business marketers must try to understand these factors and design strategies that take them into account.

Individual Factors

Each participant in the business buying decision process brings in personal motives, perceptions, and preferences. These individual factors are affected by personal characteristics such as age, income, education, professional identification, personality, and attitudes toward risk. Also, buyers have different buying styles. Some may be technical types who make in-depth analyses of competitive proposals before choosing a supplier. Other buyers may be intuitive negotiators who are adept at pitting the sellers against one another for the best deal.

The Business Buying Process

The eight stages of the business buying process.7 Buyers who face a new task buying situation usually go through all stages of the buying process. Buyers making modified or straight rebuys may skip some of the stages. We will examine these steps for the typical new task buying situation.

Problem Recognition

The buying process begins when someone in the company recognizes a problem or need that can be met by acquiring a specific product or service. **Problem recognition** can result from internal or external stimuli. Internally, the company may decide to launch a new product that requires new production equipment and materials. Or a machine may break down and need new parts. Perhaps a purchasing manager is unhappy with a current supplier's product quality, service, or prices. Externally, the buyer may get some new ideas at a trade show, see an ad, or receive a call from a salesperson who offers a better product or a lower price. In fact, in their advertising, business marketers often alert customers to potential problems and then show how their products and services provide solutions. For example, an award-winning ad from Makino Engineering Services, a leading maker of advanced machining tools, highlights a daunting customer problem: hard-to-machine parts. In the ad, the powerful visual shows a machined part that looks like a scary monster, complete with fangs. The ad's headline then offers the solution: "Our application engineers love the scary parts." The ad goes on to reassure customers that Makino can help them with their most difficult to machine parts and urges, "Don't be afraid of the part."

General Need Description

Having recognized a need, the buyer next prepares a **general need description** that describes the characteristics and quantity of the needed item. For standard items, this process presents few problems. For complex items, however, the buyer may need to work with others—engineers, users, consultants—to define the item. The team may want to rank the importance of reliability, durability, price, and other attributes desired in the item. In this phase, the alert business marketer can help the buyers define their needs and provide information about the value of different product characteristics.

Product Specification

The buying organization next develops the item's technical **product specifications**, often with the help of a value analysis engineering team. Product value analysis is an approach to cost reduction in which components are studied carefully to determine if they can be redesigned, standardized, or made by less costly methods of production. The team decides on the best product characteristics and specifies them accordingly. Sellers, too, can use value analysis as a tool to help secure a new account. By showing buyers a better way to make an object, outside sellers can turn straight rebuy situations into new task situations that give them a chance to obtain new business.

Supplier Search

The buyer now conducts a **supplier search** to find the best vendors. The buyer can compile a small list of qualified suppliers by reviewing trade directories, doing computer searches, or phoning other companies for recommendations. Today, more and more companies are turning to the Internet to find suppliers. For marketers, this has leveled the playing field—the Internet gives smaller suppliers many of the same advantages as larger competitors.

The newer the buying task, and the more complex and costly the item, the greater the amount of time the buyer will spend searching for suppliers. The supplier's task is to get listed in major directories and build a good reputation in the marketplace. Salespeople should watch for companies in the process of searching for suppliers and make certain that their firm is considered.

Proposal Solicitation

In the **proposal solicitation** stage of the business buying process, the buyer invites qualified suppliers to submit proposals. In response, some suppliers will send only a catalog or a salesperson. However, when the item is complex or expensive, the buyer will usually require detailed written proposals or formal presentations from each potential supplier.

Business marketers must be skilled in researching, writing, and presenting proposals in response to buyer proposal solicitations. Proposals should be marketing documents, not just technical documents. Presentations should inspire confidence and make the marketer's company stand out from the competition.

Supplier Selection

The members of the buying center now review the proposals and select a supplier or suppliers. During **supplier selection**, the buying center often will draw up a list of the desired supplier attributes and their relative importance. Such attributes include product and service quality, reputation, on-time delivery, ethical corporate behavior, honest communication, and competitive prices. The members of the buying center will rate suppliers against these attributes and identify the best suppliers.

Buyers may attempt to negotiate with preferred suppliers for better prices and terms before making the final selections. In the end, they may select a single supplier or a few suppliers.

Many buyers prefer multiple sources of supplies to avoid being totally dependent on one supplier and allow comparisons of prices and performance of several suppliers over **Product specification**

The stage of the business buying process in which the buying organization decides on and specifies the best technical product characteristics for a needed item.

Supplier search

The stage of the business buying process in which the buyer tries to find the best vendors.

Proposal solicitation

The stage of the business buying process in which the buyer invites qualified suppliers to submit proposals.

Supplier selection

The stage of the business buying process in which the buyer reviews proposals and selects a supplier or suppliers. time. Today's supplier developments managers want to develop a full network of supplier partners that can help the company bring more value to its customers.

Order-Routine Specification

The buyer now prepares an **order-routine specification**. It includes the final order with the chosen supplier or suppliers and lists items such as technical specifications, quantity needed, expected delivery time, return policies, and warranties. In the case of maintenance, repair, and operating items, buyers may use blanket contracts rather than periodic purchase orders. A blanket contract creates a long-term relationship in which the supplier promises to resupply the buyer as needed at agreed prices for a set time period. Many large buyers now practice vendor-managed inventory, in which they turn over ordering and inventory responsibilities to their suppliers. Under such systems, buyers share sales and inventory information directly with key suppliers. The suppliers then monitor inventories and replenish stock automatically as needed. For example, most major suppliers to large retailers such as Walmart, Target, Home Depot, and Lowe's assume vendor-managed inventory responsibilities.

Performance Review

In this stage, the buyer reviews supplier performance. The buyer may contact users and ask them to rate their satisfaction. The **performance review** may lead the buyer to continue, modify, or drop the arrangement. The seller's job is to monitor the same factors used by the buyer to make sure that the seller is giving the expected satisfaction. In all, the eight-stage buying-process model shown in Figure 6.3 provides a simple view of the business buying as it might occur in a new task buying situation. However, the actual process is usually much more complex. In the modified rebuy or straight rebuy situation, some of these stages would be compressed or bypassed. Each organization buys in its own way, and each buying situation has unique requirements. Different buying center participants may be involved at different stages of the process.

Although certain buying-process steps usually do occur, buyers do not always follow them in the same order, and they may add other steps. Often, buyers will repeat certain stages of the process. Finally, a customer relationship might involve many different types of purchases ongoing at a given time, all in different stages of the buying process. The seller must manage the total customer relationship, not just individual purchases.

E-Procurement: Buying on the Internet

Advances in information technology have changed the face of the B-to-B marketing process.

Electronic purchasing, often called **e-procurement**, has grown rapidly in recent years. Virtually unknown a decade and a half ago, online purchasing is standard procedure for most companies today. E-procurement gives buyers access to new suppliers, lowers purchasing costs, and hastens order processing and delivery. In turn, business marketers can connect with customers online to share marketing information, sell products and services, provide customer support services, and maintain ongoing customer relationships. Companies can do e-procurement in any of several ways. They can conduct reverse auctions, in which they put their purchasing requests online and invite suppliers to bid for the business. Or they can engage in online trading exchanges, through which companies work collectively to facilitate the trading process. Companies also can conduct e-procurement by setting up their own company buying sites. For example, GE operates a company trading site on which it posts its buying needs and invites bids, negotiates terms, and places orders. Or companies can create extranet links with key suppliers. For instance, they can create direct procurement accounts with suppliers such as Dell or Office Depot, through which company buyers can purchase equipment, materials, and supplies directly. B-to-B marketers can help customers who wish to purchase online by creating welldesigned, easy-to-use Web sites.

Institutional and Government

Markets

So far, our discussion of organizational buying has focused largely on the buying behaviour of business buyers. Much of this discussion also applies to the buying practices of institutional and government organizations. However, these two nonbusiness markets have additional characteristics and needs. In this final section, we address the special features ofn institutional and government markets.

Institutional Markets

The **institutional market** consists of schools, hospitals, nursing homes, prisons, and other institutions that provide goods and services to people in their care. Institutions differ from one another in their sponsors and their objectives. For example, Tenet Healthcare runs for-profit hospitals in 12 states, generating $8.7 billion in annual revenues. By contrast, the Shriners Hospitals for Children is a nonprofit organization with 22 hospitals that provide free specialized healthcare for children, whereas the government-run Veterans Affairs Medical Centers located across the country provide special services to veterans.10 Each institution has different buying needs and resources. Institutional markets can be huge. Consider the massive and expanding U.S. prisons economy:

Government Markets

The **government market** offers large opportunities for many companies, both big and small. In most countries, government organizations are major buyers of goods and services. In the United States alone, federal, state, and local governments contain more than 82,000 buying units that purchase more than $1 trillion in goods and services each year. Government buying and business buying are similar in many ways. But there are also differences that must be understood by companies that wish to sell products and services to governments. To succeed in the government market, sellers must locate key decision makers, identify the factors that affect buyer behavior, and understand the buying decision process.

Government organizations typically require suppliers to submit bids, and normally they award the contract to the lowest bidder. In some cases, a governmental unit will make allowances for the supplier's superior quality or reputation for completing contracts on time. Governments will also buy on a negotiated contract basis, primarily in the case of complex projects involving major R&D costs and risks, and in cases where there is little competition.

Government organizations tend to favor domestic suppliers over foreign suppliers. A major complaint of multinationals operating in Europe is that each country shows favouritism toward its nationals in spite of superior offers that are made by foreign firms. The European Economic Commission is gradually removing this bias. Like consumer and business buyers, government buyers are affected by environmental, organizational, interpersonal, and individual factors. One unique thing about government buying is that it is carefully watched by outside publics, ranging from Congress to a variety of private groups interested in how the government spends taxpayers' money. Because their spending decisions are subject to public review, government organizations require considerable paperwork from suppliers, who often complain about excessive paperwork, bureaucracy, regulations, decision-making delays, and frequent shifts in procurement personnel.

REVIEW QUESTIONS

1. Explain how the business market differs from the consumer market for a product such as automobiles.

2. Name and describe the three types of business buying situations.

3. List the major influences on business buyer behavior. Why is it important for the B-to-B marketer to understand these major influences?

4. Name and briefly describe the stages of the business buying process.

5. Describe how electronic purchasing has changed the B-to-B marketing process and discuss the advantages and disadvantages of electronic purchasing.

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UNIT-7 CUSTOMER- DRIVEN MARKETING STRATEGY REATING VALUE FOR TARGET CUSTOMERS

CONTENTS

INTRODUCTION

Companies today recognize that they cannot appeal to all buyers in the marketplace—or at least not to all buyers in the same way. Buyers are too numerous, widely scattered, and varied in their needs and buying practices. Moreover, the companies themselves vary widely in their abilities to serve different segments of the market. Instead, like Best Buy, a company must identify the parts of the market that it can serve best and most profitably. It must design customer-driven marketing strategies that build the right relationships with the right customers. Thus, most companies have moved away from mass marketing and toward target marketing: identifying market segments, selecting one or more of them, and developing products and marketing programs tailored to each. Instead of scattering their marketing efforts (the "shotgun" approach), firms are focusing on the buyers who have greater interest in the values they create best (the "rifle" approach). strategy. In the first two steps, the company selects the customers that it will serve. **Market segmentation** involves dividing a market into smaller segments of buyers with distinct needs, characteristics, or behaviors that might require separate marketing strategies or mixes. The company identifies different ways to segment the market and develops profiles of the resulting market segments. **Market targeting** (or **targeting**) consists of evaluating each market segment's attractiveness and selecting one or more market segments to enter.

Market Segmentation

Buyers in any market differ in their wants, resources, locations, buying attitudes, and buying practices. Through market segmentation, companies divide large, heterogeneous markets into smaller segments that can be reached more efficiently and effectively with products and services that match their unique needs. In this section, we discuss four important segmentation topics: segmenting consumer markets, segmenting business markets, segmenting international markets, and the requirements for effective segmentation.

Segmenting Consumer Markets

There is no single way to segment a market. A marketer has to try different segmentation variables, alone and in combination, to find the best way to view market structure. Here we look at the major geographic, demographic, psychographic, and behavioral variables.

Geographic Segmentation

Geographic segmentation calls for dividing the market into different geographical units, such as nations, regions, states, counties, cities, or even neighborhoods. A company may decide to operate in one or a few geographical areas or operate in all areas but pay attention to geogra phical differences in needs and wants. Many companies today are localizing their products, advertising, promotion, and sales efforts to fit the needs of individual regions, cities, and even neighborhoods.

Demographic segmentation divides the market into segments based on variables such as age, gender, family size, family life cycle, income, occupation, education, religion, race, generation, and nationality. Demographic factors are the most popular bases for segmenting customer groups. One reason is that consumer needs, wants, and usage rates often vary closely with demographic variables. Another is that demographic variables are easier to measure than most other types of variables. Even when marketers first define segments using other bases, such as benefits sought or behavior, they must know a segment's demographic characteristics to assess the size of the target market and reach it efficiently.

Age and Life-Cycle Stage.

Consumer needs and wants change with age. Some companies use age and life-cycle segmentation, offering different products or using different marketing approaches for different age and life-cycle groups. For example, for children, Geographic segmentation: Walmart has developed special formats tailored to specific types of geographic locations, from Hispanic-focused Supermercado de Walmart stores to smaller Marketside and Neighborhood Market supermarkets.

Gender. Gender segmentation has long been used in clothing, cosmetics, toiletries, and magazines. For example, P&G was among the first with Secret, a brand specially formulated for a woman's chemistry, packaged and advertised to reinforce the female image. More recently, many mostly women's cosmetics makers have begun marketing men's lines. For example, Nivea markets Nivea for Men, a product line for men ranging from its 3-in-1 Active3 body wash, shampoo, and shaving cream combination to a revitalizing eye cream. According to a Nivea marketer, Active3 appeals to the male mind-set of, "I wanted to be fast, convenient, and economical. I wanted to fit with these times." It's "What Men Want." Aneglected gender segment can offer new opportunities in markets ranging from consumer electronics to motorcycles. For example, Harley-Davidson has traditionally targeted its product design and marketing to a bread-and-butter market of males between 35 and 55 years old. Women were more often just along for the ride—but no longer:

Psychographic segmentation divides buyers into different segments based on social class, lifestyle, or personality characteristics. People in the same demographic group can have very different psychographic characteristics.

Behavioral segmentation divides buyers into segments based on their knowledge, attitudes, uses, or responses to a product. Many marketers believe that behavior variables are the best starting point for building market segments.

Occasions. Buyers can be grouped according to occasions when they get the idea to buy, actually make their purchase, or use the purchased item. **Occasion segmentation** can help firms build up product usage.

User Status. Markets can be segmented into nonusers, ex-users, potential users, first-time users, and regular users of a product. Marketers want to reinforce and retain regular users, attract targeted nonusers, and reinvigorate relationships with ex-users. Included in the potential user group are consumers facing life-stage changes—such as newlyweds and new parents—who can be turned into heavy users. For example, upscale kitchen and cookware retailer Williams-Sonoma actively targets newly engaged couples.

Usage Rate. Markets can also be segmented into light, medium, and heavy product users. Heavy users are often a small percentage of the market but account for a high percentage of total consumption. For example, Burger King targets what it calls "Super Fans," young (ages 18 to 34), Whopper-wolfing males and females who make up 18 percent of the chain's customers but account for almost half of all customer visits. They eat at Burger King an average of 13 times a month. Burger King targets these Super Fans openly with ads that exalt monster burgers containing meat, cheese, and more meat and cheese that can turn "innies into outies."

Loyalty Status. A market can also be segmented by consumer loyalty. Consumers can be loyal to brands (Tide), stores (Target), and companies (Apple). Buyers can be divided into groups according to their degree of loyalty. Some consumers are completely loyal—they buy one brand all the time.

Using Multiple Segmentation Bases

Marketers rarely limit their segmentation analysis to only one or a few variables only. Rather, they often use multiple segmentation bases in an effort to identify smaller, better-defined target groups. Thus, a bank may not only identify a group of wealthy, retired adults but also, within that group, distinguish several segments based on their current income, assets, savings and risk preferences, housing, and lifestyles.

Several business information services—such as Nielsen, Acxiom, and Experian—provide multivariable segmentation systems that merge geographic, demographic, lifestyle, and behavioural data to help companies segment their markets down to zip codes, neighborhoods, and even households. One of the leading segmentation systems is the PRIZM system by Nielsen.

Segmenting international markets based on geographic, economic, political, cultural, and other factors presumes that segments should consist of clusters of countries. However, as new communications technologies, such as satellite TV and the Internet, connect consumers around the world, marketers can define and reach segments of like-minded consumers no matter where in the world they are. Using **intermarket segmentation** (also called **cross-market segmentation**), they form segments of consumers who have similar needs and buying behaviors even though they are located in different countries. For example, Lexus targets the world's well-to-do—the "global elite" segment—regardless of their country. Coca-Cola creates special programs to target teens, core consumers of its soft drinks the world over. And Swedish furniture giant IKEA targets the aspiring global middle class—it sells good-quality furniture that ordinary people worldwide can afford. Requirements for Effective Segmentation

Market Targeting

Market segmentation reveals the firm's market segment opportunities. The firm now has to evaluate the various segments and decide how many and which segments it can serve best.

We now look at how companies evaluate and select target segments. After dividing the market into segments, it's time to answer that first seemingly simple marketing strategy question we raised

Undifferentiated (mass) marketing

A market-coverage strategy in which a firm decides to ignore market segment differences and go after the whole market with one offer. Evaluating Market Segments In evaluating different market segments, a firm must look at three factors: segment size and growth, segment structural attractiveness, and company objectives and resources. The company must first collect and analyze data on current segment sales, growth rates, and the expected profitability for various segments. It will be interested in segments that have the right size and growth characteristics.

Undifferentiated Marketing

Using an **undifferentiated marketing** (or **mass marketing**) strategy, a firm might decide to ignore market segment differences and target the whole market with one offer. Such a strategy focuses on what is common in the needs of consumers rather than on what is different. The company designs a product and a marketing program that will appeal to the largest number of buyers. As noted earlier in the unit, most modern marketers have strong doubts about this strategy. Difficulties arise in developing a product or brand that will satisfy all consumers. Moreover, mass marketers often have trouble competing with more-focused firms that do a better job of satisfying the needs of specific segments and niches.

Differentiated Marketing

Using a **differentiated marketing** (or **segmented marketing**) strategy, a firm decides to target several market segments and designs separate offers for each. Toyota Corporation produces several different brands of cars—from Scion to Toyota to Lexus—each targeting its own segments of car buyers. P&G markets six different laundry detergent brands in the United States, which compete with each other on supermarket shelves.

And VF Corporation offers a closet full of more than thirty premium lifestyle brands, which "fit the lives of consumers the world over" in well-defined segments—"from commuters to cowboys, surfers to soccer moms, sports fans to rock bands."

Concentrated Marketing

Using a **concentrated marketing** (or **niche marketing**) strategy, instead of going after a small share of a large market, a firm goes after a large share of one or a few smaller segments

Micromarketing

Differentiated and concentrated marketers tailor their offers and marketing programs to meet the needs of various market segments and niches. At the same time, however, they do not customize their offers to each individual customer. **Micromarketing** is the practice of tailoring products and marketing programs to suit the tastes of specific individuals and locations. Rather than seeing a customer in every individual, micro-marketers see the individual in every customer. Micromarketing includes local marketing and individual marketing. **Local Marketing. Local marketing** involves tailoring brands and promotions to the needs and wants of local customer groups—cities, neighborhoods, and even specific stores.

Individual Marketing.

In the extreme, micromarketing becomes **individual marketing**—tailoring products and marketing programs to the needs and preferences of individual customers. Individual marketing has also been labeled one-to-one marketing, mass customization, and markets-of-one marketing. The widespread use of mass marketing has obscured the fact that for centuries consumers were served as individuals: The tailor custom-made a suit, the cobbler designed shoes for an individual, and the cabinetmaker made furniture to order. Today, however, new technologies are permitting many companies to return to customized marketing. More detailed databases, robotic production and flexible manufacturing, and interactive communication media such as cell phones and the Internet have combined to foster "mass customization." Mass customization is the process through which firms interact one-to-one with masses of customers to design products and services tailor-made to individual needs.

Choosing a Targeting Strategy

Companies need to consider many factors when choosing a market-targeting strategy. Which strategy is best depends on the company's resources. When the firm's resources are limited, concentrated marketing makes the most sense. The best strategy also depends on the degree of product variability. Undifferentiated marketing is more suited for uniform products, such as grapefruit or steel. Products that can vary in design, such as cameras and cars, are more suited to differentiation or concentration. The product's life-cycle stage also must be considered. When a firm introduces a new product, it may be practical to launch one version only, and undifferentiated marketing or concentrated marketing may make the most sense. In the mature stage of the product life cycle (PLC), however, differentiated marketing often makes more sense. Another factor is market variability. If most buyers have the same tastes, buy the same amounts, and react the same way to marketing efforts, undifferentiated marketing is appropriate.

Finally, competitors' marketing strategies are important. When competitors use differentiated or concentrated marketing, undifferentiated marketing can be suicidal. Conversely, when competitors use undifferentiated marketing, a firm can gain an advantage by using differentiated or concentrated marketing, focusing on the needs of buyers in specific segments.

Socially Responsible Target Marketing

Smart targeting helps companies become more efficient and effective by focusing on the segments that they can satisfy best and most profitably. Targeting also benefits consumers— companies serve specific groups of consumers with offers carefully tailored to their needs. However, target marketing sometimes generates controversy and concern. The biggest issues usually involve the targeting of vulnerable or disadvantaged consumers with controversial or potentially harmful products.

For example, over the years, marketers in a wide range of industries—from cereal, soft drinks, and fast food to toys and fashion—have been heavily criticized for their marketing efforts directed toward children. Critics worry that premium offers and high powered advertising appeals presented through the mouths of lovable animated characters will overwhelm children's defenses.

Differentiation and Positioning

Beyond deciding which segments of the market it will target, the company must decide on a value proposition—how it will create differentiated value for targeted segments and what positions it wants to occupy in those segments. A **product's position** is the way the product is defined by consumers on important attributes—the place the product occupies in consumers' minds relative to competing products. Products are made in factories, but brands happen in the minds of consumers.

Identifying Possible Value Differences and Competitive Advantages

To build profitable relationships with target customers, marketers must understand customer needs better than competitors do and deliver more customer value. To the extent that a company can differentiate and position itself as providing superior customer value, it gains **competitive advantage**.

But solid positions cannot be built on empty promises. If a company positions its product as offering the best quality and service, it must actually differentiate the product so that it delivers the promised quality and service. Companies must do much more than simply shout out their positions with slogans and taglines. They must first live the slogan. For example, when Staples' research revealed that it should differentiate itself on the basis of "an easier shopping experience," the office supply retailer held back its "Staples: That was easy" marketing campaign for more than a year. First, it remade its stores to actually deliver the promised positioning.

Choosing the Right Competitive Advantages

Suppose a company is fortunate enough to discover several potential differentiations that provide competitive advantages. It now must choose the ones on which it will build its positioning strategy. It must decide how many differences to promote and which ones.

How Many Differences to Promote. Many marketers think that companies should aggressively promote only one benefit to the target market. Advertising executive Rosser Reeves, for example, said a company should develop a unique selling proposition (USP) for each brand and stick to it. Each brand should pick an attribute and tout itself as "number one" on that attribute. Buyers tend to remember number one better, especially in this over communicated society. Thus, Walmart promotes its unbeatable low prices, and Burger King promotes personal choice—"have it your way." Other marketers think that companies should position themselves on more than one differentiator. This may be necessary if two or more firms are claiming to be best on the same attribute. Today, in a time when the mass market is fragmenting into many small segments, companies and brands are trying to broaden their positioning strategies to appeal to more segments. For example, whereas most laundry products marketers offer separate products for cleaning, softening, and reducing static cling, Henkel's Purex brand recently introduced a product that offers all three benefits in a single sheet: Purex Complete 3-in-1 Laundry Sheets. "Cleans. Softens. Removes static. If only it could fold," says one ad. Clearly, many buyers want these multiple benefits. The challenge is to convince them that one brand can do it all. However, as companies increase the number of claims for their brands, they risk disbelief and a loss of clear positioning.

Which Differences to Promote. Not all brand differences are meaningful or worthwhile; not every difference makes a good differentiator. Each difference has the potential to create company costs as well as customer benefits. Adifference is worth establishing to the extent that it satisfies the following criteria:

• Important: The difference delivers a highly valued benefit to target buyers.

• Distinctive: Competitors do not offer the difference, or the company can offer it in a more distinctive way.

• Superior: The difference is superior to other ways that customers might obtain the same benefit.

• Communicable: The difference is communicable and visible to buyers.

• Preemptive: Competitors cannot easily copy the difference.

• Affordable: Buyers can afford to pay for the difference.

• Profitable: The company can introduce the difference profitably.

Many companies have introduced differentiations that failed one or more of these tests. When the Westin Stamford Hotel in Singapore once advertised that it is the world's tallest hotel, it was a distinction that was not important to most tourists; in fact, it turned many off. Polaroid's Polarvision, which produced instantly developed home movies, bombed too. Although Polarvision was distinctive and even preemptive, it was inferior to another way of capturing motion, namely, camcorders. Thus, choosing competitive advantages on which to position a product or service can be difficult, yet such choices may be crucial to success. Choosing the right differentiators can help a brand stand out from the pack of competitors. For example, when carmaker Nissan introduced its novel little Cube, it didn't position the car only on attributes shared with competing models, such as affordability and customization. It positioned it as a "mobile device" that fits today's digital lifestyles.

Selecting an Overall Positioning Strategy

The full positioning of a brand is called the brand's **value proposition**—the full mix of benefits on which a brand is differentiated and positioned. It is the answer to the customer's question "Why should I buy your brand?" Volvo's value proposition hinges on safety but also includes reliability, roominess, and styling, all for a price that is higher than average but seems fair for this mix of benefits.

More for More. "More-for-more" positioning involves providing the most upscale product or service and charging a higher price to cover the higher costs. Four Seasons hotels, Rolex watches, Mercedes automobiles, SubZero appliances—each claims superior quality, craftsmanship, durability, performance, or style and charges a price to match. Not only is the market offering high in quality, but it also gives prestige to the buyer. It symbolizes status and a loftier lifestyle. Often, the price difference exceeds the actual increment in quality. Sellers offering "only the best" can be found in every product and service category, from hotels, restaurants, food, and fashion to cars and household appliances. Consumers are sometimes surprised, even delighted, when a new competitor enters a category with an unusually high-priced brand. Starbucks coffee entered as a very expensive brand in a commodity category. When Apple premiered its iPhone, it offered higher-quality features than a traditional cell phone with a hefty price tag to match.

More for the Same. Companies can attack a competitor's more-for-more positioning by introducing a brand offering comparable quality at a lower price. For example, Toyota introduced its Lexus line with a "more-for-the-same" value proposition versus Mercedes and BMW. Its first headline read: "Perhaps the first time in history that trading a $72,000 car for a $36,000 car could be considered trading up." It communicated the high quality of its new Lexus through rave reviews in car magazines and a widely distributed videotape showing side-by-side comparisons of Lexus and Mercedes automobiles. It published surveys showing that Lexus dealers were providing customers with better sales and service experiences than were Mercedes dealerships. Many Mercedes owners switched to Lexus, and the Lexus repurchase rate has been 60 percent, twice the industry average.

The Same for Less. Offering "the same for less" can be a powerful value proposition— everyone likes a good deal. Discount stores such as Walmart and "category killers" such as Best Buy, PetSmart, David's Bridal, and DSW Shoes use this positioning. They don't claim to offer different or better products. Instead, they offer many of the same brands as department stores and specialty stores but at deep discounts based on superior purchasing power and lower-cost operations. Other companies develop imitative but lower-priced brands in an effort to lure customers away from the market leader. For example, AMD makes less expensive versions of Intel's market-leading microprocessor chips.

Less for Much Less. A market almost always exists for products that offer less and therefore cost less. Few people need, want, or can afford "the very best" in everything they buy. In many cases, consumers will gladly settle for less than optimal performance or give up some of the bells and whistles in exchange for a lower price. For example, many travelers seeking lodgings prefer not to pay for what they consider unnecessary extras, such as a pool, an attached restaurant, or mints on the pillow. Hotel chains such as Ramada Limited, Holiday Inn Express, and Motel 6 suspend some of these amenities and charge less accordingly.

More for Less. Of course, the winning value proposition would be to offer "more for less." Many companies claim to do this. And, in the short run, some companies can actually achieve such lofty positions. For example, when it first opened for business, Home Depot had arguably the best product selection, the best service, and the lowest prices compared to local hardware stores and other home improvement chains. Yet in the long run, companies will find it very difficult to sustain such best-of-both positioning. Offering more usually costs more, making it difficult to deliver on the "for-less" promise. Companies that try to deliver both may lose out to more focused competitors. For example, facing determined competition from Lowe's stores, Home Depot must now decide whether it wants to compete primarily on superior service or on lower prices. All said, each brand must adopt a positioning strategy designed to serve the needs and wants of its target markets. "More for more" will draw one target market, "less for much less" will draw another, and so on. Thus, in any market, there is usually room for many different companies, each successfully occupying different positions. The important thing isthat each company must develop its own winning positioning strategy, one that makes it special to its target consumers.

Developing a Positioning Statement

Company and brand positioning should be summed up in a **positioning statement**. The statement should follow the form: To (target segment and need) our (brand) is (concept) that (point of difference).27 Here is an example: "To busy, mobile professionals who need to always be in the loop, the BlackBerry is a wireless connectivity solution that gives you an easier, more reliable way to stay connected to data, people, and resources while on the go."

REVIEW QUESTIONS

1. Briefly describe the four major steps in designing a customer driven marketing strategy.

2. Name and describe the four major sets of variables that might be used in segmenting consumer markets. Which segmenting variables does Starbucks use?

3. Discuss the factors marketers consider when choosing a targeting strategy.

4. Explain how micromarketing differs from differentiated and concentrated marketing and discuss the two types of micromarketing.

5. Explain how a company differentiates its products from competitors' products.

6. Name and define the five winning value propositions described in the unit. Which value proposition describes Walmart?

FURTHER READINGS

1. Marketing management-S.Jaychandran
2. Marketing managemen tand strategy-Peter dayal, Philip stern
3. Marketing management-Dhawan and sundaram
4. Marketing management-s.h.h. kajami
5. Marketing management-montgue brown

IMPORTANT NOTES

UNIT-8 PRODUCTS, SERVICES, AND BRANDS BUILDING CUSTOMER VALUE

CONTENTS

INTRODUCTION

We define a **product** as anything that can be offered to a market for attention, acquisition, use, or consumption that might satisfy a want or need. Products include more than just tangible objects, such as cars, computers, or cell phones. Broadly defined, “products” also include services, events, persons, places, organizations, ideas, or a mixture of these. Throughout this text, we use the term product broadly to include any or all of these entities. Thus, an Apple iPhone, a Toyota Camry, and a Caffé Mocha at Starbucks are products. But so are a trip to Las Vegas, E*Trade online investment services, and advice from your family doctor. Because of their importance in the world economy, we give special attention to services.

Services are a form of product that consists of activities, benefits, or satisfactions offered for sale that are essentially intangible and do not result in the ownership of anything. Examples include banking, hotel services, airline travel, retail, wireless communication, and home repair services. We will look at services more closely later in this unit.

Products, Services, and Experiences

Products are a key element in the overall market offering. Marketing-mix planning begins with building an offering that brings value to target customers. This offering becomes the basis on which the company builds profitable customer relationships. A company’s market offering often includes both tangible goods and services. At one extreme, the market offer may consist of a pure tangible good, such as soap, toothpaste, or salt; no services accompany the product. At the other extreme are pure services, for which the market offer consists primarily of a service. Examples include a doctor’s exam or financial services. Between these two extremes, however, many goods-and-services combinations are possible.

Today, as products and services become more commoditized, many companies are moving to a new level in creating value for their customers. To differentiate their offers, beyond simply making products and delivering services, they are creating and managing customer experiences with their brands or company.

Consumer products are products and services bought by final consumers for personal consumption. Marketers usually classify these products and services further based on how consumers go about buying them. Consumer products include convenience products, shopping products, specialty products, and unsought products. These products differ in the ways consumers buy them and, therefore, in how they are marketed.

Convenience products are consumer products and services that customers usually buy frequently, immediately, and with minimal comparison and buying effort. Examples include laundry detergent, candy, magazines, and fast food. Convenience products are usually low priced, and marketers place them in many locations to make them readily available when customers need or want them.

Shopping products are less frequently purchased consumer products and services that customers compare carefully on suitability, quality, price, and style. When buying shopping products and services, consumers spend much time and effort in gathering information and making comparisons. Examples include furniture, clothing, used cars, major appliances, and hotel and airline services. Shopping products marketers usually distribute their products through fewer outlets but provide deeper sales support to help customers in their comparison efforts.

Specialty products are consumer products and services with unique characteristics or brand identification for which a significant group of buyers is willing to make a special purchase effort. Examples include specific brands of cars, high-priced photographic equipment, designer clothes, and the services of medical or legal specialists. ALamborghini automobile, for example, is a specialty product because buyers are usually willing to travel great distances to buy one. Buyers normally do not compare specialty products. They invest only the time needed to reach dealers carrying the wanted products.

Unsought products are consumer products that the consumer either does not know about or knows about but does not normally consider buying. Most major new innovations are unsought until the consumer becomes aware of them through advertising. Classic examples of known but unsought products and services are life insurance, preplanned funeral services, and blood donations to the Red Cross. By their very nature, unsought products require a lot of advertising, personal selling, and other marketing efforts.

Industrial products are those purchased for further processing or for use in conducting a business. Thus, the distinction between a consumer product and an industrial product is based on the purpose for which the product is purchased. If a consumer buys a lawn mower for use around home, the lawn mower is a consumer product. If the same consumer buys the same lawn mower for use in a landscaping business, the lawn mower is an industrial product.

Organizations, Persons, Places, and Ideas

In addition to tangible products and services, marketers have broadened the concept of a product to include other market offerings: organizations, persons, places, and ideas. Organizations often carry out activities to "sell" the organization itself. Organization marketing consists of activities undertaken to create, maintain, or change the attitudes and behavior of target consumers toward an organization. Both profit and not-for-profit organizations practice organization marketing. Business firms sponsor public relations or corporate image advertising campaigns to market themselves and polish their images. For example, food, agriculture, and industrial products giant Cargill markets itself to the public as

a company that works closely with its business customers—from farmers and fisherman to fast-food restaurants and furniture manufacturers—to help bring the world everything from heart-healthy milk and trans fat–free french fries to furniture and bedding foam created from renewable resources. It says in its ads, "This is how Cargill works with customers: "collaborate _ create _ succeed." Similarly, not-for-profit organizations, such as churches, colleges, charities, museums, and performing arts groups, market their organizations to raise funds and attract members or patrons.

Product and Service Decisions

Marketers make product and service decisions at three levels: individual product decisions, product line decisions, and product mix decisions. We discuss each in turn. Individual Product and Service Decisions shows the important decisions in the development and marketing of individual products and services. We will focus on decisions about product attributes, branding, packaging, labeling, and product support services.

Product and Service Attributes

Developing a product or service involves defining the benefits that it will offer. These benefits are communicated and delivered by product attributes such as quality, features, and style and design.

Product quality is one of the marketer's major positioning tools. Quality has a direct impact on product or service performance; thus, it is closely linked to customer value and satisfaction. In the narrowest sense, quality can be defined as "freedom from defects." But most customer-centered companies go beyond this narrow definition. Instead, they define quality in terms of creating customer value and satisfaction. The American Society for Quality defines quality as the characteristics of a product or service that bear on its ability to satisfy stated or implied customer needs. Similarly, Siemens defines quality this way: "Quality is when our customers come back and our products don't."

Total quality management (TQM) is an approach in which all of the company's people are involved in constantly improving the quality of products, services, and business processes. For most top companies, customer-driven quality has become a way of doing business. Today, companies are taking a "return on quality" approach, viewing quality as an investment and holding quality efforts accountable for bottom-line results. Product quality has two dimensions: level and consistency. In developing a product, the marketer must first choose a quality level that will support the product's positioning. Here, product quality means performance quality—the ability of a product to perform its functions. For example, a Rolls-Royce provides higher performance quality than a Chevrolet: It has a smoother ride, provides more luxury and "creature comforts," and lasts longer. Companies rarely try to offer the highest possible performance quality level; few customers want or can afford the high levels of quality offered in products such as a Rolls-Royce automobile, a Viking range, or a Rolex watch. Instead, companies choose a quality level that matches target market needs and the quality levels of competing products.

Product Features. A product can be offered with varying features. A stripped-down model, one without any extras, is the starting point. The company can create higher-level models by adding more features. Features are a competitive tool for differentiating the company's product from competitors' products. Being the first producer to introduce a valued new feature is one of the most effective ways to compete.

How can a company identify new features and decide which ones to add to its product? It should periodically survey buyers who have used the product and ask these questions: How do you like the product? Which specific features of the product do you like most? Which features could we add to improve the product? The answers to these questions provide the company with a rich list of feature ideas. The company can then assess each feature's value to customers versus its cost to the company. Features that customers value highly in relation to costs should be added.

Product Style and Design. Another way to add customer value is through distinctive product style and design. Design is a larger concept than style. Style simply describes the appearance of a product. Styles can be eye catching or yawn producing. A sensational style may grab attention and produce pleasing aesthetics, but it does not necessarily make the product perform better. Unlike style, design is more than skin deep—it goes to the very heart

of a product. Good design contributes to a product's usefulness as well as to its looks. Good design doesn't start with brainstorming new ideas and making prototypes. Design begins with observing customers and developing a deep understanding of their needs. More than simply creating product or service attributes, it involves shaping the customer's

Branding

Perhaps the most distinctive skill of professional marketers is their ability to build and manage brands. A **brand** is a name, term, sign, symbol, or design, or a combination of these, that identifies the maker or seller of a product or service. Consumers view a brand as an important part of a product, and branding can add value to a product. Customers attach meanings to brands and develop brand relationships. Brands have meaning well beyond a product's physical attributes. For example, consider Coca-Cola:10 In an interesting taste test of Coca-Cola versus Pepsi, 67 subjects were connected to brain-wave-monitoring machines while they consumed both products. When the soft drinks were unmarked, consumer preferences were split down the middle. But when the brands were identified, subjects choose Coke over Pepsi by a margin of 75 percent to 25 percent. When drinking the identified Coke brand, the brain areas that lit up most were those associated with cognitive control and memory—a place where culture concepts are stored. That didn't happen as much when drinking Pepsi. Why? According to one brand strategist, it's because of Coca-Cola's long-established brand imagery—the almost 100-year-old contour bottle and cursive font and its association with iconic images ranging from Mean Joe Greene and the Polar Bears to Santa Claus. Pepsi's imagery isn't quite as deeply rooted. Although people might associate Pepsi with a hot celebrity or the "Pepsi generation" appeal, they probably don't link it to the strong and emotional American icons associated with Coke. The conclusion? Plain and simple: Consumer preference isn't based on taste alone. Coke's iconic brand appears to make a difference.

Packaging involves designing and producing the container or wrapper for a product. Traditionally, the primary function of the package was to hold and protect the product. In recent times, however, numerous factors have made packaging an important marketing tool as well. Increased competition and clutter on retail store shelves means that packages must now perform many sales tasks—from attracting attention, to describing the product, to making the sale. Companies are realizing the power of good packaging to create immediate consumer recognition of a brand. For example, an average supermarket stocks 47,000 items; the average Walmart supercenter carries 142,000 items. The typical shopper passes by some 300 items per minute, and from 40 percent to 70 percent of all purchase decisions are made in stores. In this highly competitive environment, the package may be the seller's last and best chance to influence buyers. Thus, for many companies, the package itself has become an important promotional medium. Poorly designed packages can cause headaches for consumers and lost sales for the company. Think about all those hard-to-open packages, such as DVD cases sealed with impossibly sticky labels, packaging with finger-splitting wire twist-ties, or sealed plastic clamshell containers that take the equivalent of the fire department's Jaws of Life to open. Such packaging causes what Amazon.com calls "'wrap rage'—the frustration we feel when trying to free a product froma nearly impenetrable package."

Labeling

Labels range from simple tags attached to products to complex graphics that are part of the packaging. They perform several functions. At the very least, the label identifies the product or brand, such as the name Sunkist stamped on oranges. The label might also describe several things about the product—who made it, where it was made, when it was made, its contents, how it is to be used, and how to use it safely. Finally, the label might help to promote the brand, support its positioning, and connect with customers. For many companies, labels have become an important element in broader marketing campaigns.

Product Support Services

Customer service is another element of product strategy. Acompany's offer usually includes some support services, which can be a minor part or a major part of the total offering. Later in this unit, we will discuss services as products in themselves. Here, we discuss services that augment actual products.

Product Line Decisions

Beyond decisions about individual products and services, product strategy also calls for building a product line. A **product line** is a group of products that are closely related because they function in a similar manner, are sold to the same customer groups, are marketed through the same types of outlets, or fall within given price ranges. For example, Nike produces several lines of athletic shoes and apparel, and Marriott offers several lines of hotels. The major product line decision involves product line length—the number of items in the product line. The line is too short if the manager can increase profits by adding items; the line is too long if the manager can increase profits by dropping items. Managers need to analyse their product lines periodically to assess each item's sales and profits and understand how each item contributes to the line's overall performance.

Product line length is influenced by company objectives and resources. For example, one objective might be to allow for upselling. Thus BMW wants to move customers up from its 1-series models to 3-, 5-, 6-, and 7-series models. Another objective might be to allow cross-selling: HP sells printers as well as cartridges. Still another objective might be to protect against economic swings: Gap runs several clothing-store chains (Gap, Old Navy, and banana republic) covering different price points. A company can expand its product line in two ways: by line filling or line stretching. Product line filling involves adding more items within the present range of the line. There are several reasons for product line filling: reaching for extra profits, satisfying dealers, using excess capacity, being the leading full-line company, and plugging holes to keep out competitors.

Product Mix Decisions

An organization with several product lines has a product mix. A**product mix** (or **product portfolio**) consists of all the product lines and items that a particular seller offers for sale. Colgate's product mix consists of four major product lines: oral care, personal care, home care, and pet nutrition. Each product line consists of several sublines.18 For example, the home care line consists of dishwashing, fabric conditioning, and household cleaning products. Each line and subline has many individual items. Altogether, Colgate's product mix includes hundreds of items.

Product mix depth refers to the number of versions offered for each product in the line. Colgate toothpastes come in 16 varieties, ranging from Colgate Total, Colgate Max Fresh, Colgate Sensitive, Colgate Cavity Protection, and Colgate Tartar Protection to Ultrabrite, Colgate Sparkling White, Colgate Luminous, and Colgate Kids Toothpastes. Each variety comes in its own special forms and formulations. For example, you can buy Colgate Total in regular, mint stripe gel, or whitening liquid. Finally, the consistency of the product mix refers to how closely related the various product lines are in end use, production requirements, distribution channels, or some other way. Colgate product lines are consistent insofar as they are consumer products and go through the same distribution channels. The lines are less consistent insofar as they perform different functions for buyers.

These product mix dimensions provide the handles for defining the company's product strategy. The company can increase its business in four ways. (1) It can add new product lines, widening its product mix. In this way, its new lines build on the company's reputation in its other lines. (2) The company can lengthen its existing product lines to become a more full-line company. (3) It can add more versions of each product and thus deepen its product mix. (4) The company can pursue more product line consistency—or less—depending on whether it wants to have a strong reputation in a single field or in several fields.

Service intangibility means that services cannot be seen, tasted, felt, heard, or smelled before they are bought. For example, people undergoing cosmetic surgery cannot see the result before the purchase. Airline passengers have nothing but a ticket and a promise that they and their luggage will arrive safely at the intended destination, hopefully at the same time. To reduce uncertainty, buyers look for "signals" of service quality. They draw conclusions about quality from the place, people, price, equipment, and communications that they can see.

Therefore, the service provider's task is to make the service tangible in one or more ways and send the right signals about quality. One analyst calls this evidence management, As noted at the start of this unit, services are "products," too—intangible ones. So all the product topics we've discussed so far apply to services as well as to physical products. However, in this section, we focus on the special characteristics and marketing needs that set services apart.

Service variability means that the quality of services depends on who provides them as well as when, where, and how they are provided. For example, some hotels—say, Marriott—have reputations for providing better service than others. Still, within a given Marriott hotel, one registration-counter employee may be cheerful and efficient, whereas another standing just a few feet away may be unpleasant and slow. Even the quality of a single Marriott employee's service varies according to his or her energy and frame of mind at the time of each customer encounter.

Service perishability means that services cannot be stored for later sale or use. Some doctors charge patients for missed appointments because the service value existed only at that point and disappeared when the patient did not show up. The perishability of services is not a problem when demand is steady. However, when demand fluctuates, service firms often have difficult problems. For example, because of rush-hour demand, public transportation companies have to own much more equipment than they would if demand were even throughout the day. Thus, service firms often design strategies for producing a better match between demand and supply. Hotels and resorts charge lower prices in the off-season to attract more guests. And restaurants hire part-time employees to serve during peak periods.

Marketing Strategies for Service Firms

Just like manufacturing businesses, good service firms use marketing to position themselves strongly in chosen target markets. JetBlue promises "Happy Jetting"; Target says "Expect more. Pay less." At Hampton, "We love having you here." And St. Jude Children's Hospital it is "Finding cures. Saving children." These and other service firms establish their positions through traditional marketing mix activities. However, because services differ from tangible products, they often require additional marketing approaches.

The Service Profit Chain

In a service business, the customer and the front-line service employee interact to create the service. Effective interaction, in turn, depends on the skills of front-line service employees and on the support processes backing these employees. Thus, successful service companies focus their attention on both their customers and their employees. They understand the **service profit chain**, which links service firm profits with employee and customer satisfaction. This chain consists of five links:

• Internal service quality: superior employee selection and training, a quality work environment, and strong support for those dealing with customers, which results in . . .

• Satisfied and productive service employees: more satisfied, loyal, and hardworking employees, which results in . . .

• Greater service value: more effective and efficient customer value creation and service delivery, which results in . . .

• Satisfied and loyal customers: satisfied customers who remain loyal, repeat purchase, and refer other customers, which results in . . .

• Healthy service profits and growth: superior service firm performance.

Therefore, reaching service profits and growth goals begins with taking care of those who take care of customers. Four Seasons Hotels and Resorts, a chain legendary for its outstanding customer service, is also legendary for its motivated and satisfied employees. Similarly, customer-service all-star Zappos.com, the online shoe, clothing, and accessories retailer, knows that happy customers begin with happy, dedicated, and energetic employees:

Most of Zappos.com's business is driven by word-of-mouth and customer interactions with company employees. So keeping customers happy really does require keeping employees happy. Zappos.com, Inc., starts by recruiting the right people and training them thoroughly in customer-service basics. Then the Zappos family culture takes over, a culture that emphasizes "a satisfying and fulfilling job . . . and acareeryoucanbeproud of. Work hard. Play hard. All the time!" It's a great place to work. The online retailer creates a relaxed, fun-loving, and close-knit family atmosphere, complete with free meals, full benefits, profit sharing, a nap room, and even a full-time life coach. The result is what one observer calls "1,550 perpetually chipper employees." Every year, the company publishes a "culture book," filled with unedited, often gushy testimonials fromZapponians about what it's like to work there. "Oh my gosh," says one employee, "this is my home away from home. . .

. It's changed my life. . . . Our culture is the best reason to work here." Says another, "the most surprising thing about coming to work here is that there are no limits. So pretty much anything you are passionate about is possible." And about what are Zapponians most passionate? The Zappos family's No. 1 core value: "CreatingWOWthrough service."

Internal marketing and Interactive marketing.

Internal marketing means that the service firm must orient and motivate its customer-contact employees and supporting service people to work as a team to provide customer satisfaction. Marketers must get everyone in the organization to be customer centered. In fact, internal marketing must precede external marketing. For example, Four Seasons Hotels and Resorts starts by hiring the right people and carefully orienting and inspiring them to give unparalleled customer service.

Interactive marketing means that service quality depends heavily on the quality of the buyer-seller interaction during the service encounter. In product marketing, product quality often depends little on how the product is obtained. But in services marketing, service quality depends on both the service deliverer and the quality of delivery. Service marketers, therefore, have to master interactive marketing skills. Thus, Four Seasons selects only people with an innate "passion to serve" and instructs them carefully in the fine art of interacting with customers to satisfy their every need. All new hires complete a three-month training regimen, including improvisation exercises to help them improve their customerinteraction skills.

Managing Service Differentiation

In these days of intense price competition, service marketers often complain about the difficulty of differentiating their services from those of competitors. To the extent that customers view the services of different providers as similar, they care less about the provider than the price.

The solution to price competition is to develop a differentiated offer, delivery, and image. The offer can include innovative features that set one company's offer apart from competitors' offers. Some hotels offer no-wait kiosk registration, car-rental, banking, and business-center services in their lobbies and free high-speed Internet connections in their rooms. Some retailers differentiate themselves by offerings that take you well beyond the products they stock. For example, PetSmart isn't your average pet shop. Most locations offer training, grooming salons, veterinarian services, and even a "PetsHotel with a Doggie Day Camp," making it your one-stop shop for all your pet's needs.

Service companies can differentiate their service delivery by having more able and reliable customer-contact people, developing a superior physical environment in which the service product is delivered, or designing a superior delivery process. For example, many grocery chains now offer online shopping and home delivery as a better way to shop than having to drive, park, wait in line, and tote groceries home. And most banks allow you to access your account information from almost anywhere— from the ATM to your cell phone. Finally, service companies also can work on differentiating their images through symbols and branding. Aflac adopted the duck as its symbol in its advertising—

even as stuffed animals, golf club covers, and free ring tones and screensavers. The well-known Aflac duck helped make the big but previously unknown insurance company memorable and approachable. Other well-known service symbols include Merrill Lynch's bull, MGM's lion, McDonald's golden arches, Allstate's "good hands," and the Travelers red umbrella.

Managing Service Quality

A service firm can differentiate itself by delivering consistently higher quality than its competitors provide. Like manufacturers before them, most service industries have now joined the customer-driven quality movement. And like product marketers, service providers need to identify what target customers expect in regard to service quality.

Managing Service Productivity

With their costs rising rapidly, service firms are under great pressure to increase service productivity. They can do so in several ways. They can train current employees better or hire new ones who will work harder or more skillfully. Or they can increase the quantity of their service by giving up some quality. The provider can "industrialize the service" by adding equipment and standardizing production, as in McDonald's assembly-line approach to fast food retailing. Finally, a service provider can harness the power of technology. Although we often think of technology's power to save time and costs in manufacturing companies, it also has great—and often untapped—potential to make service workers more productive. However, companies must avoid pushing productivity so hard that doing so reduces quality. Attempts to industrialize a service or cut costs can make a service company more efficient in the short run. But that can also reduce its longer-run ability to innovate, maintain service quality, or respond to consumer needs and desires. For example, some airlines have learned this lesson the hard way as they attempt to economize in the face of rising costs. They stopped offering even the little things for free—such as in-flight snacks—and began charging extra for everything from curbside luggage check-in to aisle seats. The result is a plane full of resentful customers who avoid the airline whenever they can. In their attempts to improve productivity, these airlines mangled customer service.

Branding Strategy: Building Strong Brands

Some analysts see brands as the major enduring asset of a company, outlasting the company's specific products and facilities. John Stewart, former CEO of Quaker Oats, once said, "If this business were split up, I would give you the land and bricks and mortar, and I would keep the brands and trademarks, and I would fare better than you." A former CEO of McDonald's declared, "If every asset we own, every building, and every piece of equipment were destroyed in a terrible natural disaster, we would be able to borrow all the money to replace it very quickly because of the value of our brand. . . . The brand is more valuable than the totality of all these assets."Thus, brands are powerful assets that must be carefully developed and managed. In this section,weexamine the key strategies for building and managing product and service brands.

Brand Equity

Brands are more than just names and symbols. They are a key element in the company's relationships with consumers. Brands represent consumers' perceptions and feelings about a product and its performance—everything that the product or the service means to consumers.

In the final analysis, brands exist in the heads of consumers. As one well-respected marketer once said, "Products are created in the factory, but brands are created in the mind." Adds Jason Kilar, CEO of the online video service Hulu, "A brand is what people say about you when you're not in the room."

A powerful brand has high brand equity. **Brand equity** is the differential effect that knowing the brand name has on customer response to the product and its marketing. It's a measure of the brand's ability to capture consumer preference and loyalty. Abrand has positive brand equity when consumers react more favorably to it than to a generic or unbranded version of the same product. It has negative brand equity if consumers react less favourably than to an unbranded version.

Brands vary in the amount of power and value they hold in the marketplace. Some brands—such as Coca-Cola, Nike, Disney, GE, McDonald's, Harley-Davidson, and others— become larger-than-life icons that maintain their power in the market for years, even generations. Other brands create fresh consumer excitement and loyalty, brands such as Google, YouTube, Apple, eBay, Twitter, and Wikipedia. These brands win in the marketplace not simply because they deliver unique benefits or reliable service. Rather, they succeed because they forge deep connections with customers.

Ad agency Young & Rubicam's Brand Asset Valuator measures brand strength along four consumer perception dimensions: differentiation (what makes the brand stand out), relevance (how consumers feel it meets their needs), knowledge (how much consumers know about the brand), and esteem (how highly consumers regard and respect the brand). Brands with strong brand equity rate high on all four dimensions. The brand must be distinct, or consumers will have no reason to choose it over other brands. But the fact that a brand is highly differentiated doesn't necessarily mean that consumers will buy it. The brand must stand out in ways that are relevant to consumers' needs. But even a differentiated, relevant brand is far from a shoein. Before consumers will respond to the brand, they must first know about and understand it. And that familiarity must lead to a strong, positive consumer-brand connection. Thus, positive brand equity derives from consumer feelings about and connections with a brand. Consumers sometimes bond very closely with specific brands. As perhaps the ultimate expression of brand devotion, a surprising number of people—and not just Harley-Davidson fans—have their favorite brand tattooed on their bodies.

Brand Positioning

Marketers need to position their brands clearly in target customers' minds. They can position brands at any of three levels.30 At the lowest level, they can position the brand on product attributes. For example, P&G invented the disposable diaper category with its Pampers brand.

Early Pampers marketing focused on attributes such as fluid absorption, fit, and disposability. In general, however, attributes are the least desirable level for brand positioning. Competitors can easily copy attributes. More importantly, customers are not interested in attributes as such; they are interested in what the attributes will do for them.

Brand Name Selection

A good name can add greatly to a product's success. However, finding the best brand name is a difficult task. It begins with a careful review of the product and its benefits, the target market, and proposed marketing strategies. After that, naming a brand becomes part science, part art, and a measure of instinct.

Desirable qualities for a brand name include the following: (1) It should suggest something about the product's benefits and qualities. Examples: Beauty rest, Acuvue, Breathe

Brand Sponsorship

A manufacturer has four sponsorship options. The product may be launched as a national brand (or manufacturer's brand), as when Sony and Kellogg sell their output under their own brand names (Sony Bravia HDTV or Kellogg's Frosted Flakes). Or the manufacturer may sell to resellers who give the product a private brand (also called a store brand or distributor brand). Although most manufacturers create their own brand names, others market licensed brands. Finally, two companies can join forces and co-brand a product. We discuss each of these options in turn.

National Brands versus Store Brands. National brands (or manufacturers' brands)have long dominated the retail scene. In recent times, however, an increasing number of retailers and wholesalers have created their own **store brands** (or **private brands**). Although store brands have been gaining strength for more than a decade, recent tougher economic times have created a store-brand boom. Studies show that consumers are buying more private brands, and most don't plan to return to name brands anytime soon. "Bad times are good times for private labels," says a brand expert. "As consumers become more price-conscious, they also become less brand-conscious.

Licensing. Most manufacturers take years and spend millions to create their own brand names. However, some companies license names or symbols previously created by other manufacturers, names of well-known celebrities, or characters from popular movies and books. For a fee, any of these can provide an instant and proven brand name. among others, that stress the brand's bang for one's buck.

Co-branding occurs when two established brand names of different companies are used on the same product. Co-branding offers many advantages. Because each brand dominates in a different category, the combined brands create broader consumer appeal and greater brand equity. For example, high-end shaving products brand The Art of Shaving partnered with mainstream marketer Gillette to create the Fusion Chrome Collection, featuring a $150 power razor billed as "the world's most technologically advanced razor." Through the partnership, The Art of Shaving gains access to Gillette's broader market; Gillette, in turn, adds high-end luster to its shaving products line. Co-branding can take advantage of the complementary strengths of two brands. For example, the Tim Hortons coffee chain is establishing co-branded Tim Hortons–Cold Stone Creamery shops. TimHortons is strong in the morning and midday periods, with coffee and baked goods, soups, and sandwiches. By contrast, Cold Stone Creamery's ice cream snacks are strongest in the afternoon and evening, which are Tim Hortons's nonpeak periods. The co-branded locations offer customers a reason to visit morning, noon, and night.

Co-branding also allows a company to expand its existing brand into a category it might otherwise have difficulty entering alone. For example, Nike and Apple co-branded the Nike_iPod Sport Kit, which lets runners link their Nike shoes with their iPods to track and enhance running performance in real time. "Your iPod Nano [or iPod Touch] becomes your coach. Your personal trainer. Your favorite workout companion." The Nike_iPod arrangement gives Apple a presence in the sports and fitness market. At the same time, it helps Nike bring new value to its customers.38 Co-branding can also have limitations. Such relationships usually involve complex legal contracts and licenses. Co-branding partners must carefully coordinate their advertising, sales promotion, and other marketing efforts. Finally, when co-branding, each partner must trust that the other will take good care of its brand. If something damages the reputation of one brand, it can tarnish the co-brand as well.

Brand Development

Acompany has four choices when it comes to developing brands. It can introduce line extensions, brand extensions, multibrands, or new brands.

Line extensions occur when a company extends existing brand names to new forms, colors, sizes, ingredients, or flavors of an existing product category. Thus, the Cheerios line of cereals includes Honey Nut, Frosted, Yogurt Burst, MultiGrain, Banana Nut, Yogurt Burst, and several other variations.

Brand Extensions. A **brand extension** extends a current brand name to new or modified products in a new category. For example, Kellogg's has extended its Special K cereal brand into a full line of cereals plus lines of crackers, fruit crisps, snack and nutrition bars, breakfast shakes, protein waters, and other health and nutrition products. Victorinox extended its venerable Swiss Army brand from multitool knives to products ranging from cutlery and ballpoint pens to watches, luggage, and apparel. And P&G has leveraged the strength of its Mr. Clean household cleaner brand to launch several new lines: cleaning pads (Magic Eraser), bathroom cleaning tools (Magic Reach), and home auto cleaning kits (Mr. Clean AutoDry). It even launched Mr. Clean–branded car washes.

Multibrands. Companies often market many different brands in a given product category. For example, in the United States, P&G sells six brands of laundry detergent (Tide, Cheer, Gain, Era, Dreft, and Ivory), five brands of shampoo (Pantene, Head & Shoulders, Aussie, Herbal Essences, and Infusium 23); and four brands of dishwashing detergent (Dawn, Ivory, Joy, and Cascade). Multibranding offers a way to establish different features that appeal to different customer segments, lock up more reseller shelf space, and capture a larger market share. For example, P&G's six laundry detergent brands combined capture a whopping 62 percent of the U.S. laundry detergent market.

New Brands. Acompany might believe that the power of its existing brand name is waning, so a new brand name is needed. Or it may create a new brand name when it enters a new product category for which none of its current brand names are appropriate. For example,

Managing Brands

Companies must manage their brands carefully. First, the brand's positioning must be continuously communicated to consumers. Major brand marketers often spend huge amounts on advertising to create brand awareness and build preference and loyalty. For example, Verizon spends more than $3.7 billion annually to promote its brand. McDonald's spends more than $1.2 billion.

REVIEW QUESTIONS

1. Define product and the three levels of product.

2. Compare and contrast industrial products and consumerproducts.

3. Explain the importance of product quality and discuss how marketers use quality to create customer value.

4. Compare and contrast the four brand sponsorship options available to a manufacturer and give an example of each.

5. Discuss the brand development strategies marketers use to develop brands. Give an example of each strategy.

6. Describe the four characteristics of services that marketers must consider when designing marketing programs. According to these characteristics, how do the services offered by a massage therapist differ from those offered by a grocery store?

FURTHER READINGS

1. Marketing management-S.Jaychandran
2. Marketing managemen tand strategy-Peter dayal, Philip stern
3. Marketing management-Dhawan and sundaram
4. Marketing management-s.h.h. kajami
5. Marketing management-montgue brown

UNIT-9 NEW PRODUCT DEVELOPMENT AND PRODUCT LIFE-CYCLE STRATEGIES

CONTENTS

INTRODUCTION

A firm can obtain new products in two ways. One is through acquisition—by buying a whole company, a patent, or a license to produce someone else's product. The other is through the firm's own **new-product development** efforts. By new products we mean original products, product improvements, product modifications, and new brands that the firm develops through its own R&D efforts. In this unit, we concentrate on new-product development. New products are important—to both customers and the marketers who serve them. For customers, they bring new solutions and variety to their lives. For companies, new products are a key source of growth. Even in a down economy, companies must continue to innovate. New products provide new ways to connect with customers as they adapt their buying to changing economic times. Bad times are "when winners and losers get created," says former Xerox CEO Anne Mulcahy. "The ability to reinforce great marketing and great brand is extraordinarily important." John Hayes, CEO of American Express, agrees: "The world will pass you by if you are not constantly innovating." Yet innovation can be very expensive and very risky. New products face tough odds. According to one estimate, 80 percent of all new products fail or dramatically underperform. Each year, companies lose an estimated $20 billion to $30 billion on failed food products alone.

Why do so many new products fail? There are several reasons. Although an idea may be good, the company may overestimate market size. The actual product may be poorly designed. Or it might be incorrectly positioned, launched at the wrong time, priced too high, or poorly advertised. A high-level executive might push a favorite idea despite poor marketing research findings. Sometimes the costs of product development are higher than expected, and sometimes competitors fight back harder than expected. However, the reasons behind some new-product failures seem pretty obvious. Try the following on for size: Strolling the aisles of GfK's NewProductWorks collection is like finding yourself in a new-product history museum. Many of the more than 110,000 products on display were quite successful. Others, however, were abject flops. Behind each flop are squandered dollars and hopes and the classic question, "What were they thinking?" Some products failed because they simply didn't bring value to customers—for example, Look of Buttermilk Shampoo, Cucumber antiperspirant spray, or Premier smokeless cigarettes. Smokeless cigarettes? What were they thinking? Other companies failed because they attached trusted brand names to something totally out of character. Can you imagine swallowing Ben-Gay aspirin? Or how about Gerber Singles food for adults (perhaps the tasty pureed sweet-and-sour pork or chicken Madeira)? Other misbegotten attempts to stretch a good name include Cracker Jack cereal, Exxon fruit punch, Smucker's premium ketchup, Fruit of the Loom laundry detergent, and Harley-Davidson cake-decorating kits. Really, what were they thinking?

The New-Product Development Process

Companies face a problem: They must develop new products, but the odds weigh heavily against success. To create successful new products, a company must understand its consumers, markets, and competitors and develop products that deliver superior value to customers. It must carry out strong new-product planning and set up a systematic, customer-driven new product development process for finding and growing new products.

Idea Generation

New-product development starts with **idea generation**—the systematic search for new product ideas. A company typically generates hundreds of ideas, even thousands, to find a few good ones. Major sources of new-product ideas include internal sources and external sources such as customers, competitors, distributors and suppliers, and others.

Internal Idea Sources

Using internal sources, the company can find new ideas through formal R&D. However, in one survey, 750 global CEOs reported that only 14 percent of their innovation ideas came from traditional R&D. Instead, 41 percent came from employees, and 36 percent came from customers.

External Idea Sources

Companies can also obtain good new-product ideas from any of a number of external sources. For example, distributors and suppliers can contribute ideas. Distributors are close to the market and can pass along information about consumer problems and new-product possibilities.

Suppliers can tell the company about new concepts, techniques, and materials that can be used to develop new products. Competitors are another important source. Companies watch competitors' ads to get clues about their new products. They buy competing new products, take them apart to see how they work, analyze their sales, and decide whether they should bring out a new product of their own. Other idea sources include trade magazines, shows, and seminars; government agencies; advertising agencies; marketing research firms; university and commercial laboratories; and inventors.

Perhaps the most important source of new-product ideas are customers themselves. The company can analyze customer questions and complaints to find new products that better solve consumer problems. Or it can invite customers to share suggestions and ideas. For example,

Crowdsourcing

More broadly, many companies are now developing crowdsourcing or open-innovation newproduct idea programs. **Crowdsourcing** throws the innovation doors wide open, inviting broad communities of people—customers, employees, independent scientists and researchers, and even the public at large—into the new-product innovation process.

An attractive idea must be developed into a **product concept**. It is important to distinguish between a product idea, a product concept, and a product image. A product idea is an idea for a possible product that the company can see itself offering to the market. A product concept is a detailed version of the idea stated in meaningful consumer terms. Aproduct image is the way consumers perceive an actual or potential product.

Concept Development

Suppose a car manufacturer has developed a practical battery-powered, all-electric car. Its initial prototype is a sleek, sporty roadster convertible that sells for more than $100,000.16 However, in the near future, it plans to introduce more-affordable, mass-market versions that will compete with today's hybrid cars. This 100 percent electric car will accelerate from zero to sixty miles per hour in 5.6 seconds, travel more than 300 miles on a single charge, recharge in 45 minutes from a normal 120-volt electrical outlet, and cost about one penny per mile to power. Looking ahead, the marketer's task is to develop this new product into alternative product concepts, find out how attractive each concept is to customers, and choose the best one. It might create the following product concepts for this electric car:

• Concept 1: An affordably priced midsize car designed as a second family car to be used around town for running errands and visiting friends.

• Concept 2: A mid-priced sporty compact appealing to young singles and couples.

• Concept 3: A "green" car appealing to environmentally conscious people who want practical, low-polluting transportation.

• Concept 4: A high-end midsize utility vehicle appealing to those who love the space SUVs provide but lament the poor gas mileage.

Concept testing calls for testing new-product concepts with groups of target consumers. The concepts may be presented to consumers symbolically or physically. Here, in more detail, is concept 3:

An efficient, fun-to-drive, battery-powered compact car that seats four. This 100 percent electric wonder provides practical and reliable transportation with no pollution. It goes more than 300 miles on a single charge and costs pennies per mile to operate. It's a sensible, responsible alternative to today's pollution-producing gas-guzzlers. Its fully equipped price is $25,000. Many firms routinely test new-product concepts with consumers before attempting to turn them into actual new products. For some concept tests, a word or picture description might be sufficient. However, a more concrete and physical presentation of the concept will increase the reliability of the concept test. The answers to such questions will help the company decide which concept has the strongest appeal. For example, the last question asks about the consumer's intention to buy. Suppose 2 percent of consumers say they "definitely" would buy, and another 5 percent say "probably." The company could project these figures to the full population in this target group to estimate sales volume. Even then, the estimate is uncertain because people do not always carry out their stated intentions.

Marketing Strategy Development

Suppose the carmaker finds that concept 3 for the electric car tests best. The next step is **marketing strategy development**, designing an initial marketing strategy for introducing this car to the market. The marketing strategy statement consists of three parts. The first part describes the target market; the planned value proposition; and the sales, market share, and profit goals for the first few years. Thus:

The target market is younger, well-educated, moderate- to high-income individuals, couples, or small families seeking practical, environmentally responsible transportation.

1. Do you understand the concept of a battery-powered electric car?

2. Do you believe the claims about the car's performance?

3. What are the major benefits of the battery-powered electric car compared with a conventional car?

4. What are its advantages compared with a gas-electric hybrid car?

5. What improvements in the car's features would you suggest?

6. For what uses would you prefer a battery-powered electric car to a conventional car?

7. What would be a reasonable price to charge for the car?

8. Who would be involved in your decision to buy such a car? Who would drive it?

9. Would you buy such a car (definitely, probably, probably not, definitely not)?

Product Development

For many new-product concepts, a product may exist only as a word description, a drawing, or perhaps a crude mock-up. If the product concept passes the business test, it moves into **product development**. Here, R&D or engineering develops the product concept into a physical product. The product development step, however, now calls for a huge jump in investment. It will show whether the product idea can be turned into a workable product.

Marketers often involve actual customers in product testing. For example, HP signs up consumers to evaluate prototype imaging and printing products in their homes and offices.

Participants work with prerelease products for periods ranging from a few days to eight weeks and share their experiences about how the products perform in an actual use environment. The product-testing program gives HP a chance to interact with customers and gain insights about their entire “out-of-box experience,” from product setup and operation to system compatibility. HP personnel might even visit participants’ homes to directly observe installation and first usage of the product.

Test Marketing

If the product passes both the concept test and the product test, the next step is **test marketing**, the stage at which the product and its proposed marketing program are introduced into realistic market settings. Test marketing gives the marketer experience with marketing a product before going to the great expense of full introduction. It lets the company test the product and its entire marketing program—targeting and positioning strategy, advertising, distribution, pricing, branding and packaging, and budget levels. The amount of test marketing needed varies with each new product. Test marketing costs can be high, and it takes time that may allow competitors to gain advantages. When the costs of developing and introducing the product are low, or when management is already confident about the new product, the company may do little or no test marketing. In fact, test marketing by consumer-goods firms has been declining in recent years. Companies often do not test-market simple line extensions or copies of successful competitor products.

Commercialization

Test marketing gives management the information needed to make a final decision about whether to launch the new product. If the company goes ahead with **commercialization**— introducing the new product into the market—it will face high costs. The company may need to build or rent a manufacturing facility. And, in the case of a major new consumer product, it may spend hundreds of millions of dollars for advertising, sales promotion, and other marketing efforts in the first year. For example, to introduce its McCafé coffee in the United States, McDonald’s spent $100 million on an advertising blitz that spanned TV, print, radio, outdoor, the Internet, events, public relations, and sampling. Similarly, Verizon spent $100 million to introduce the Droid smart phone, and Microsoft spent $100 million or more on marketing to introduce its Bing search engine.

The company launching a new product must first decide on introduction timing. If the carmaker’s new battery-powered electric car will eat into the sales of its other cars, the introduction may be delayed. If the car can be improved further, or if the economy is down, the company may wait until the following year to launch it. However, if competitors are ready to introduce their own battery-powered models, the company may push to introduce its car sooner.

Next, the company must decide where to launch the new product—in a single location, a region, the national market, or the international market. Few companies have the confidence, capital, and capacity to launch new products into full national or international distribution from the get-go. Instead, they develop a planned market rollout over time. For example, when Miller introduced Miller Chill, a lighter Mexican-style lager flavored with lime and salt, it started in selected southwestern states, such as Arizona, New Mexico, and Texas, supported by local TV commercials. Based on strong sales in these initial markets, the company then rolled out Miller Chill nationally, supported by $35 million worth of TV commercials and print ads. Finally, based on the brand's U.S. success, Miller rolled out Miller Chill internationally, starting in Australia.

Some companies, however, may quickly introduce new models into the full national market. Companies with international distribution systems may introduce new products through swift global rollouts. Microsoft did this with its Windows 7 operating system, using a mammoth advertising blitz to launch the operating system simultaneously in more than 30 markets worldwide.

Managing New-Product Development

The new-product development process shown in Figure 9.1 highlights the important activities needed to find, develop, and introduce new products. However, new-product development involves more than just going through a set of steps. Companies must take a holistic approach to managing this process. Successful new-product development requires a customer-centered, team-based, and systematic effort.

Customer-Centered New-Product Development

Above all else, new-product development must be customer centered. When looking for and developing new products, companies often rely too heavily on technical research in their R&D laboratories. But like everything else in marketing, successful new-product development begins with a thorough understanding of what consumers need and value.

Customer-centered new-product development focuses on finding new ways to solve customer problems and create more customer-satisfying experiences. One study found that the most successful new products are ones that are differentiated, solve major customer problems, and offer a compelling customer value proposition. Another study showed that companies that directly engage their customers in the new-product innovation process had twice the return on assets and triple the growth in operating income of firms that did not. Thus, customer involvement has a positive effect on the new-product development process and product success.

Product Life-Cycle Strategies

After launching the new product, management wants that product to enjoy a long and happy life. Although it does not expect that product to sell forever, the company wants to earn a decent profit to cover all the effort and risk that went into launching it. Management is aware that each product will have a life cycle, although its exact shape and length is not known in advance.

A typical **product life cycle (PLC)**, the course that a product's sales and profits take over its lifetime. The PLC has five distinct stages:

1. Product development begins when the company finds and develops a new-product idea. During product development, sales are zero, and the company's investment costs mount.

2. Introduction is a period of slow sales growth as the product is introduced in the market. Profits are nonexistent in this stage because of the heavy expenses of product introduction.

3. Growth is a period of rapid market acceptance and increasing profits.

4. Maturity is a period of slowdown in sales growth because the product has achieved acceptance by most potential buyers. Profits level off or decline because of increased marketing outlays to defend the product against competition.

5. Decline is the period when sales fall off and profits drop.

The PLC concept also can be applied to what are known as styles, fashions, and fads.

A **style** is a basic and distinctive mode of expression. For example, styles appear in homes (colonial, ranch, transitional), clothing (formal, casual), and art (realist, surrealist, abstract). Once a style is invented, it may last for generations, passing in and out of vogue. Astyle has a cycle showing several periods of renewed interest.

A **fashion** is a currently accepted or popular style in a given field.For example, the more formal "business attire" look of corporate dress of the 1980s and 1990s gave way to the "business casual" look of the 2000s. Fashions tend to grow slowly, remain popular for a while, and then decline slowly.

Fads are temporary periods of unusually high sales driven by consumer enthusiasm and immediate product or brand popularity.29Afad may be part of an otherwise normal life cycle, as in the case of recent surges in the sales of poker chips and accessories. Or the fad may comprise a brand's or product's entire life cycle. "Pet rocks" are a classic example. Upon hearing his friends complain about how expensive it was to care for their dogs, advertising copywriter Gary Dahl joked about his pet rock. He soon wrote a spoof of a dogtraining manual for it, titled "The Care and Training of Your Pet Rock." Soon Dahl was selling some 1.5 million ordinary beach pebbles at $4 a pop. Yet the fad, which broke one October, had sunk like a stone by the next February. Dahl's advice to those who want to succeed with a fad: "Enjoy it while it lasts." Other examples of fads include the Rubik's Cube and low-carb diets.

Marketers can apply the PLC concept as a useful framework for describing how products and markets work. And when used carefully, the PLC concept can help in developing good marketing strategies for its different stages. But using the PLC concept for forecasting product performance or developing marketing strategies presents some practical problems. We looked at the product-development stage of the PLC in the first part of this unit. We now look at strategies for each of the other life-cycle stages.

Introduction Stage

The **introduction stage** starts when a new product is first launched. Introduction takes time, and sales growth is apt to be slow. Well-known products such as frozen foods and HDTVs lingered for many years before they entered a stage of more rapid growth. In this stage, as compared to other stages, profits are negative or low because of the low sales and high distribution and promotion expenses. Much money is needed to attract distributors and build their inventories. Promotion spending is relatively high to inform consumers of the new product and get them to try it. Because the market is not generally ready for product refinements at this stage, the company and its few competitors produce basic versions of the product. These firms focus their selling on those buyers who are the most ready to buy.

Acompany, especially the market pioneer, must choose a launch strategy that is consistentwith the intended product positioning. It should realize that the initial strategy is just the first step in a grander marketing plan for the product's entire life cycle. If the pioneer chooses its launch strategy to make a "killing," it may be sacrificing long-run revenue for the sake of short-run gain. As the pioneer moves through later stages of the life cycle, it must continuously formulate new pricing, promotion, and other marketing strategies. It has the best chance of building and retaining market leadership if it plays its cards correctly from the start.

Growth Stage

If the new product satisfies the market, it will enter a **growth stage**, in which sales will start climbing quickly. The early adopters will continue to buy, and later buyers will start following their lead, especially if they hear favorable word of mouth. Attracted by the opportunities for profit, new competitors will enter the market. They will introduce new product features, and the market will expand. The increase in competitors leads to an increase in the number of distribution outlets, and sales jump just to build reseller inventories. Prices remain where they are or decrease only slightly. Companies keep their promotion spending at the same or a slightly higher level. Educating the market remains a goal, but now the company must also meet the competition. Profits increase during the growth stage as promotion costs are spread over a large volume and as unit manufacturing costs decrease. The firm uses several strategies to sustain rapid market growth as long as possible. It improves product quality and adds new product features and models. It enters new market segments and new distribution channels. It shifts some advertising from building product awareness to building product conviction and purchase, and it lowers prices at the right time to attract more buyers.

In the growth stage, the firm faces a trade-off between high market share and high current profit. By spending a lot of money on product improvement, promotion, and distribution, the company can capture a dominant position. In doing so, however, it gives up maximum current profit, which it hopes to make up in the next stage.

Maturity Stage

At some point, a product's sales growth will slow down, and it will enter the **maturity stage**. This maturity stage normally lasts longer than the previous stages, and it poses strong challenges to marketing management. Most products are in the maturity stage of the life cycle, and therefore most of marketing management deals with the mature product. The slowdown in sales growth results in many producers with many products to sell. In turn, this overcapacity leads to greater competition. Competitors begin marking down prices, increasing their advertising and sales promotions, and upping their product development budgets to find better versions of the product. These steps lead to a drop in profit. Some of the weaker competitors start dropping out, and the industry eventually contains only well-established competitors. Although many products in the mature stage appear to remain unchanged for long periods, most successful ones are actually evolving to meet changing consumer needs. Product managers should do more than simply ride along with or defend their mature products—a good offense is the best defense. They should consider modifying the market, product, and marketing mix.

Decline Stage

The sales of most product forms and brands eventually dip. The decline may be slow, as in the cases of stamps and oatmeal cereal, or rapid, as in the cases of cassette and VHS tapes. Sales may plunge to zero, or they may drop to a low level where they continue for many years. This is the

Sales decline for many reasons, including technological advances, shifts in consumer tastes, and increased competition. As sales and profits decline, some firms withdraw from the market. Those remaining may prune their product offerings. They may drop smaller market segments and marginal trade channels, or they may cut the promotion budget and reduce their prices further.

Carrying a weak product can be very costly to a firm, and not just in profit terms. There are many hidden costs. Aweak product may take up too much of management's time. It often requires frequent price and inventory adjustments. It requires advertising and sales force attention that might be better used to make "healthy" products more profitable. A product's failing reputation can cause customer concerns about the company and its other products. The biggest cost may well lie in the future. Keeping weak products delays the search for replacements, creates a lopsided product mix, hurts current profits, and weakens the company's foothold on the future.

For these reasons, companies need to pay more attention to their aging products. A firm's first task is to identify those products in the decline stage by regularly reviewing sales, market shares, costs, and profit trends. Then management must decide whether to maintain, harvest, or drop each of these declining products. Management may decide to maintain its brand, repositioning or reinvigorating it in hopes of moving it back into the growth stage of the PLC. P&G has done this with several brands, including Mr. Clean and Old Spice. Management may decide to harvest the product, which means reducing various costs (plant and equipment, maintenance, R&D, advertising, sales force), hoping that sales hold up. If successful, harvesting will increase the company's profits in the short run.

Finally, management may decide to drop the product from its line. It can sell it to another firm or simply liquidate it at salvage value. In recent years, P&G has sold off several lesser or declining brands, such as Folgers coffee, Crisco oil, Comet cleanser, Sure deodorant, Duncan Hines cake mixes, and Jif peanut butter. If the company plans to find a buyer, it will not want to run down the product through harvesting.

REVIEW QUESTIONS

1. Name and describe the major steps in developing a new product.

2. Define crowd sourcing and describe an example not already presented in the unit.

3. Compare and contrast the terms product idea, product concept, and product image.

4. Explain why successful new product development requires a customer-centered, team-based, and systematic effort.
5. Why do products enter the decline stage of the product life cycle? Discuss marketers' options at this stage.
6. Discuss the special challenges facing international product and service marketers.

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3. Marketing management-Dhawan and sundaram
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IMPORTANT NOTES

UNIT-10 PRICING UNDERSTANDINGAND CAPTURING CUSTOMER VALUE

CONTENTS

INTRODUCTION

In the narrowest sense, **price** is the amount of money charged for a product or a service. More broadly, price is the sum of all the values that customers give up to gain the benefits of having or using a product or service. Historically, price has been the major factor affecting buyer choice. In recent decades, non price factors have gained increasing importance. However, price still remains one of the most important elements that determine a firm's market share and profitability.

Price is the only element in the marketing mix that produces revenue; all other elements represent costs. Price is also one of the most flexible marketing mix elements. Unlike product features and channel commitments, prices can be changed quickly. At the same time, pricing is the number-one problem facing many marketing executives, and many companies do not handle pricing well. Some managers view pricing as a big headache, preferring instead to focus on other marketing mix elements. However, smart managers treat pricing as a key strategic tool for creating and capturing customer value. Prices have a direct impact on a firm's bottom line. A small percentage improvement in price can generate a large percentage increase in profitability. More importantly, as part of a company's overall value proposition, price plays a key role in creating customer value and building customer relationships. "Instead of running away from pricing," says an expert, "savvy marketers are embracing it."

Major Pricing Strategies

The price the company charges will fall somewhere between one that is too high to produce any demand and one that is too low to produce a profit. Customer perceptions of the product's value set the ceiling for prices. If customers perceive that the product's price is greater than its value, they will not buy the product. Product costs set the floor for prices. If the company prices the product below its costs, the company's profits will suffer. In setting its price between these two extremes, the company must consider several internal and external factors, including competitors' strategies and prices, the overall marketing strategy and mix, and the nature of the market and demand.

Customer value-based pricing uses buyers' perceptions of value, not the seller's cost, as the key to pricing. Value-based pricing means that the marketer cannot design a product and marketing program and then set the price. Price is considered along with all other marketing mix variables before the marketing program is set.

Although costs are an important consideration in setting prices, cost-based pricing is often product driven. The company designs what it considers to be a good product, adds up the costs of making the product, and sets a price that covers costs plus a target profit. Marketing must then convince buyers that the product's value at that price justifies its purchase. If the price turns out to be too high, the company must settle for lower markups or lower sales, both resulting in disappointing profits.

Value-based pricing reverses this process. The company first assesses customer needs and value perceptions. It then sets its target price based on customer perceptions of value. The targeted value and price drive decisions about what costs can be incurred and the resulting product design. As a result, pricing begins with analyzing consumer needs and value perceptions, and the price is set to match perceived value.

It's important to remember that "good value" is not the same as "low price." For example a Steinway piano—any Steinway piano—costs a lot. But to those who own one, a Steinway is a great value:

Good-Value Pricing

Recent economic events have caused a fundamental shift in consumer attitudes toward price and quality. In response, many companies have changed their pricing approaches to bring them in line with changing economic conditions and consumer price perceptions. More and more, marketers have adopted **good-value pricing** strategies—offering the right combination of quality and good service at a fair price.

Value-Added Pricing

Value-based pricing doesn't mean simply charging what customers want to pay or setting low prices to meet competition. Instead, many companies adopt **value-added pricing** strategies. Rather than cutting prices to match competitors, they attach value-added features and services to differentiate their offers and thus support higher prices. For example, at a time when competing restaurants lowered their prices and screamed "value" in a difficult economy, fast-casual chain Panera Bread has prospered by adding value and charging accordingly.

Cost-Based Pricing

Whereas customer-value perceptions set the price ceiling, costs set the floor for the price that the company can charge. **Cost-based pricing** involves setting prices based on the costs for producing, distributing, and selling the product plus a fair rate of return for its effort and risk. A company's costs may be an important element in its pricing strategy. Some companies, such as Ryanair and Walmart, work to become the "low-cost producers" in their industries. Companies with lower costs can set lower prices that result in smaller margins but greater sales and profits. However, other companies—such as Apple, BMW, and

Steinway—intentionally pay higher costs so that they can claim higher prices and margins.

Cost per Unit at Different Levels of Production per Period

Types of Costs

A company's costs take two forms: fixed and variable. **Fixed costs** (also known as **overhead**) are costs that do not vary with production or sales level. For example, a company must pay each month's bills for rent, heat, interest, and executive salaries—whatever the company's output. **Variable costs** vary directly with the level of production. Each PC produced by HP involves a cost of computer chips, wires, plastic, packaging, and other inputs. Although these costs tend to be the same for each unit produced, they are called variable costs because the total varies with the number of units produced. **Total costs** are the sum of the fixed and variable costs for any given level of production. Management wants to charge a price that will at least cover the total production costs at a given level of production.

The company must watch its costs carefully. If it costs the company more than its competitors to produce and sell a similar product, the company will need to charge a higher price or make less profit, putting it at a competitive disadvantage.

Costs at Different Levels of Production

To price wisely, management needs to know how its costs vary with different levels of production.

Costs as a Function of Production Experience

Suppose TI runs a plant that produces 3,000 calculators per day. As TI gains experience in producing calculators, it learns how to do it better. Workers learn shortcuts and become more familiar with their equipment. With practice, the work becomes better organized, and TI finds better equipment and production processes. With higher volume, TI becomes more efficient and gains economies of scale. As a result, the average cost tends to decrease with accumulated production experience. Thus, the average cost of producing the first 100,000 calculators is $10 per calculator. When the company has produced the first 200,000 calculators, the average cost has fallen to $8.50. After its accumulated production experience doubles again to 400,000, the average cost is $7. This drop in the average cost with accumulated production experience is called the **experience curve** (or the **learning curve**). If a downward-sloping experience curve exists, this is highly significant for the company. Not only will the company's unit production cost fall, but it will fall faster if the company makes and sells more during a given time period. But the market has to stand ready to buy the higher output. And to take advantage of the experience curve, TI must get a large market share early in the product's life cycle. This suggests the following pricing strategy: TI should price its calculators low; its sales will then increase, and its costs will decrease through gaining more experience, and then it can lower its prices further.

Some companies have built successful strategies around the experience curve. However, a single-minded focus on reducing costs and exploiting the experience curve will not always work. Experience-curve pricing carries some major risks. The aggressive pricing might give the product a cheap image. The strategy also assumes that competitors are weak and not willing to fight it out by meeting the company's price cuts. Finally, while the company is building volume under one technology, a competitor may find a lower-cost technology that lets it start at prices lower than those of the market leader, who still operates on the old experience curve.

Cost-Plus Pricing

The simplest pricing method is **cost-plus pricing** (or **markup pricing**)—adding a standard markup to the cost of the product. Construction companies, for example, submit job bids by estimating the total project cost and adding a standard markup for profit. Lawyers, accountants, and other professionals typically price by adding a standard markup to their costs.

Some sellers tell their customers they will charge cost plus a specified markup; for example, aerospace companies often price this way to the government.

Break-Even Chart for Determining Target-Return Price and Break-Even Volume

Does a using standard markup to set prices make sense? Generally, no. Any pricing method that ignores demand and competitor prices is not likely to lead to the best price. Still, markup pricing remains popular for many reasons. First, sellers are more certain about costs than about demand. By tying the price to cost, sellers simplify pricing; they do not need to make frequent adjustments as demand changes. Second, when all firms in the industry use this pricing method, prices tend to be similar, so price competition is minimized. Third, many people feel that cost-plus pricing is fairer to both buyers and sellers. Sellers earn a fair return on their investment but do not take advantage of buyers when buyers' demand becomes great.

Break-Even Analysis and Target Profit Pricing

Another cost-oriented pricing approach is **break-even pricing** (or a variation called **target return pricing**). The firm tries to determine the price at which it will break even or make the target return it is seeking. Target return pricing uses the concept of a break-even chart, which shows the total cost and total revenue expected at different sales volume levels. Shows a breakeven chart for the toaster manufacturer discussed here. Fixed costs are $300,000 regardless of sales volume. Variable costs are added to fixed costs to form total costs, which rise with volume. The total revenue curve starts at zero and rises with each unit sold. The slope of the total revenue curve reflects the price of $20 per unit.

The total revenue and total cost curves cross at 30,000 units. This is the break-even volume. At $20, the company must sell at least 30,000 units to break even, that is, for total revenue to cover total cost. Break-even volume can be calculated using the following formula: If the company wants to make a profit, it must sell more than 30,000 units at $20 each. Suppose the toaster manufacturer has invested $1,000,000 in the business and wants to set a price to earn a 20 percent return, or $200,000. In that case, it must sell at least 50,000 units at $20 each. If the company charges a higher price, it will not need to sell as many toasters to achieve its target return. But the market may not buy even this lower volume at the higher price. Much depends on price elasticity and competitors' prices.

Competition-based pricing involves setting prices based on competitors' strategies, costs, prices, and market offerings. Consumers will base their judgments of a product's value on the prices that competitors charge for similar products. In assessing competitors' pricing strategies, the company should ask several questions. First, how does the company's market offering compare with competitors' offerings in terms of customer value? If consumers perceive that the company's product or service provides greater value, the company can charge a higher price. If consumers perceive less value relative to competing products, the company must either charge a lower price or change customer perceptions to justify a higher price.

Next, how strong are current competitors, and what are their current pricing strategies? If the company faces a host of smaller competitors charging high prices relative to the value they deliver, it might charge lower prices to drive weaker competitors from the market. If the market is dominated by larger, low-price competitors, the company may decide to target unserved market niches with value-added products at higher prices.

Overall Marketing Strategy, Objectives, and Mix

Price is only one element of the company's broader marketing strategy. Thus, before setting price, the company must decide on its overall marketing strategy for the product or service. If the company has selected its target market and positioning carefully, then its marketing mix strategy, including price, will be fairly straightforward. For example, when Honda developed its Acura brand to compete with European luxury-performance cars in the higherincome segment, this required charging a high price. In contrast, when it introduced the Honda Fit model—billed as "a pint-sized fuel miser with feisty giddy up"—this positioning required charging a low price. Thus, pricing strategy is largely determined by decisions on market positioning.

Pricing may play an important role in helping to accomplish company objectives at many levels. Afirm can set prices to attract new customers or profitably retain existing ones. It can set prices low to prevent competition from entering the market or set prices at competitors' levels to stabilize the market. It can price to keep the loyalty and support of resellers or avoid government intervention. Prices can be reduced temporarily to create excitement for a brand. Or one product may be priced to help the sales of other products in the company's line.

Price is only one of the marketing mix tools that a company uses to achieve its marketing objectives. Price decisions must be coordinated with product design, distribution, and promotion decisions to form a consistent and effective integrated marketing program. Decisions made for other marketing mix variables may affect pricing decisions. For example, a decision to position the product on high-performance quality will mean that the seller must charge a higher price to cover higher costs. And producers whose resellers are expected to support and promote their products may have to build larger reseller margins into their prices. Companies often position their products on price and then tailor other marketing mix decisions to the prices they want to charge. Here, price is a crucial product-positioning factor that defines the product's market, competition, and design. Many firms support such price-positioning strategies with a technique called **target costing**. Target costing reverses the usual process of first designing a new product, determining its cost, and then asking, "Can we sell it for that?" Instead, it starts with an ideal selling price based on customer value considerations and then targets costs that will ensure that the price is met. For example, when Honda set out to design the Fit, it began with a $13,950 starting price point and an operating efficiency of 33 miles per gallon firmly in mind. It then designed a stylish, peppy little car with costs that allowed it to give target customers those values. Other companies deemphasize price and use other marketing mix tools to create nonprice positions. Often, the best strategy is not to charge the lowest price but rather differentiate the marketing offer to make it worth a higher price. For example, Bang & Olufsen (B&O)—known for its cutting-edge consumer electronics—builds more value into its products and charges sky-high prices. A B&O 50-inch BeoVision 4 HDTV will cost you $7,500; a 65-inch model runs $13,500, and a 103-inch model goes for $93,050. A complete B&O entertainment system?

Organizational Considerations

Management must decide who within the organization should set prices. Companies handle pricing in a variety of ways. In small companies, prices are often set by top management rather than by the marketing or sales departments. In large companies, pricing is typically handled by divisional or product line managers. In industrial markets, salespeople may be allowed to negotiate with customers within certain price ranges. Even so, top management sets the pricing objectives and policies, and it often approves the prices proposed by lowerlevel management or salespeople.

The Market and Demand

As noted earlier, good pricing starts with an understanding of how customers' perceptions of value affect the prices they are willing to pay. Both consumer and industrial buyers balance the price of a product or service against the benefits of owning it. Thus, before setting prices, the marketer must understand the relationship between price and demand for the company's product. In this section, we take a deeper look at the price-demand relationship and how it varies for different types of markets. We then discuss methods for analyzing the price-demand relationship.

Pricing in Different Types of Markets

The seller's pricing freedom varies with different types of markets. Economists recognize four types of markets, each presenting a different pricing challenge. Under pure competition, the market consists of many buyers and sellers trading in a uniform commodity, such as wheat, copper, or financial securities. No single buyer or seller has much effect on the going market price. In a purely competitive market, marketing research, product development, pricing, advertising, and sales promotion play little or no role. Thus, sellers in these markets do not spend much time on marketing strategy. Under monopolistic competition, the market consists of many buyers and sellers who trade over a range of prices rather than a single market price. A range of prices occurs because sellers can differentiate their offers to buyers. Sellers try to develop differentiated offers for different customer segments and, in addition to price, freely use branding, advertising, and personal selling to set their offers apart. Thus, Toyota sets its Prius brand apart through strong branding and advertising, reducing the impact of price. It advertises that the third generation Prius takes you from "zero to sixty in 70% fewer emissions." Because there are many competitors in such markets, each firm is less affected by competitors' pricing strategies than in oligopolistic markets.

Under oligopolistic competition, the market consists of a few sellers who are highly sensitive
to each other's pricing and marketing strategies. Because there are few sellers, each seller is alert and responsive to competitors' pricing strategies and moves.

In a pure monopoly, the market consists of one seller. The seller may be a government monopoly (the U.S. Postal Service), a private regulated monopoly (a power company), or a private nonregulated monopoly (DuPont when it introduced nylon). Pricing is handled differently in each case.

Analyzing the Price-Demand Relationship

Each price the company might charge will lead to a different level of demand. The relationship between the price charged and the resulting demand level is shown in the **demand curve**. The demand curve shows the number of units the market will buy in a given time period at different prices that might be charged. In the normal case, demand and price are inversely related—that is, the higher the price, the lower the demand. Thus, the company would sell less if it raised its price from P1 to P2. In short, consumers with limited budgets probably will buy less of something if its price is too high.

Most companies try to measure their demand curves by estimating demand at different prices. The type of market makes a difference. In a monopoly, the demand curve shows the total market demand resulting from different prices. If the company faces competition, its demand at different prices will depend on whether competitors' prices stay constant or change with the company's own prices.

Price Elasticity of Demand

Consider the two demand curves in Figure 10.6. In Figure 10.6A, a price increase from P1 to P2 leads to a relatively small drop in demand from Q1 to Q2. In Figure 10.6B, however, the same price increase leads to a large drop in demand from Q_1 to Q_2. If demand hardly changes with a small change in price, we say the demand is inelastic. If demand changes greatly, we say the demand is elastic. The **price elasticity** of demand is given by the following formula:

Suppose demand falls by 10 percent when a seller raises its price by 2 percent. The price elasticity of demand is therefore _5 (the minus sign confirms the inverse relation between price and demand), and demand is elastic. If demand falls by 2 percent with a 2 percent increase in price, then elasticity is _1. In this case, the seller's total revenue stays the same: The seller sells fewer items but at a higher price that preserves the same total revenue. If demand falls by 1 percent when price is increased by 2 percent, then elasticity is _ , and demand is inelastic. The less elastic the demand, the more it pays for the seller to raise the price. What determines the price elasticity of demand? Buyers are less price sensitive when

the product they are buying is unique or when it is high in quality, prestige, or exclusiveness; substitute products are hard to find or when they cannot easily compare the quality of substitutes; and the total expenditure for a product is low relative to their income or when the cost is shared by another party.

REVIEW QUESTIONS

1. What factors must marketers consider when setting prices?
2. Name and describe the two types of value-based pricing methods.
3. Describe the types of cost-based pricing and the methods of implementing each.
4. What is target costing and how is it different from the usual process of setting prices?
5. Discuss the impact of the economy on a company's pricing strategies.
6. Name and describe the four types of markets recognized by economists and discuss the pricing challenges posed by each.

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UNIT-11 PRICING STRATEGIES

CONTENTS

INTRODUCTION

Pricing strategies usually change as the product passes through its life cycle. The introductory stage is especially challenging. Companies bringing out a new product face the challenge of setting prices for the first time. They can choose between two broad strategies:

Market-Skimming Pricing

Many companies that invent new products set high initial prices to "skim" revenues layer by layer from the market. Apple frequently uses this strategy, called **market-skimming pricing** (or **price skimming**). When Apple first introduced the iPhone, its initial price was as much as $599 per phone. The phones were purchased only by customers who really wanted the sleek new gadget and could afford to pay a high price for it. Six months later, Apple dropped the price to $399 for an 8GB model and $499 for the 16GB model to attract new buyers. Within a year, it dropped prices again to $199 and $299, respectively, and you can now buy an 8GB model for $99. In this way, Apple skimmed the maximum amount of revenue from the various segments of the market.

Market skimming makes sense only under certain conditions. First, the product's quality and image must support its higher price, and enough buyers must want the product at that price. Second, the costs of producing a smaller volume cannot be so high that they cancel the advantage of charging more. Finally, competitors should not be able to enter the market easily and undercut the high price.

Market-Penetration Pricing

Rather than setting a high initial price to skim off small but profitable market segments, some companies use **market-penetration pricing**. Companies set a low initial price to penetrate the market quickly and deeply—to attract a large number of buyers quickly and win a large market share. The high sales volume results in falling costs, allowing companies to cut their prices even further. For example, the giant Swedish retailer IKEA used penetration pricing to boost its success in the Chinese market:

Product Mix Pricing Strategies

The strategy for setting a product's price often has to be changed when the product is part of a product mix. In this case, the firm looks for a set of prices that maximizes its profits on the total product mix. Pricing is difficult because the various products have related demand and costs and face different degrees of competition. product line pricing, optional product pricing, captive product pricing, by-product pricing, and product bundle pricing. Product Line Pricing

Companies usually develop product lines rather than single products. For example, Rossignol offers seven different collections of alpine skis of all designs and sizes, at prices that range from $150 for its junior skis, such as Fun Girl, to more than $1,100 for a pair from its Radical racing collection. It also offers lines of Nordic and backcountry skis, snowboards, and skirelated apparel. In **product line pricing**, management must determine the price steps to set between the various products in a line.

The price steps should take into account cost differences between products in the line. More importantly, they should account for differences in customer perceptions of the value of different features. For example, Quicken offers an entire line of financial management software, including Starter, Deluxe, Premier, Home & Business, and Rental Property versions priced at $29.99, $59.99, $89.99, $99.99, and $149.99, respectively. Although it costs Quicken no more to produce the CD containing the Premier version than the CD containing the Starter version, many buyers happily pay more to obtain additional Premier features, such as financial-planning and investment-monitoring tools. Quicken's task is to establish perceived value differences that support the price differences.

Pricing Situation Description

Product line pricing Setting prices across an entire product line Optional product pricing Pricing optional or accessory products sold with the main product Captive product pricing Pricing products that must be used with the main product By-product pricing Pricing low-value by-products to get rid of them Product bundle pricing Pricing bundles of products sold together

Optional Product Pricing

Many companies use **optional product pricing**—offering to sell optional or accessory products along with the main product. For example, a car buyer may choose to order a global positioning system (GPS) and Bluetooth wireless communication. Refrigerators come with optional ice makers. And when you order a new PC, you can select from a bewildering array of processors, hard drives, docking systems, software options, and service plans. Pricing these options is a sticky problem. Companies must decide which items to include in the base price and which to offer as options.

Captive Product Pricing

Companies that make products that must be used along with a main product are using **captive product pricing**. Examples of captive products are razor blade cartridges, videogames, and printer cartridges. Producers of the main products (razors, videogame consoles, and printers) often price them low and set high markups on the supplies. For example, when Sony first introduced its PS3 videogame console, priced at $499 and $599 for the regular and premium versions, it lost as much as $306 per unit sold.

Optional product pricing

The pricing of optional or accessory products along with a main product. Setting a price for products that must be used along with a main product, such as blades for a razor and games for a videogame console.

By-product pricing

Setting a price for by-products to make the main product's price more competitive. The by-products themselves can even turn out to be profitable—turning trash into cash. For example, Seattle's Woodland Park Zoo has learned that one of its major by-products—animal poo—can be an excellent source of extra revenue.

Product Bundle Pricing

Using **product bundle pricing**, sellers often combine several products and offer the bundle at a reduced price. For example, fast-food restaurants bundle a burger, fries, and a soft drink at a "combo" price. Bath & Body Works offers "three-fer" deals on its soaps and lotions (such as three antibacterial soaps for $10). And Comcast, Time Warner, Verizon, and other telecommunications companies bundle TV service, phone service, and high-speed Internet connections at a low combined price. Price bundling can promote the sales of products consumers might not otherwise buy, but the combined price must be low enough to get them to buy the bundle.

Price Adjustment Strategies

Companies usually adjust their basic prices to account for various customer differences and changing situations. Here we examine the seven price adjustment strategies summarized: discount and allowance pricing, segmented pricing, psychological pricing, promotional pricing, geographical pricing, dynamic pricing, and international pricing.

Discount and Allowance Pricing

Most companies adjust their basic price to reward customers for certain responses, such as the early payment of bills, volume purchases, and off-season buying. These price adjustments— called discounts and allowances—can take many forms.

The many forms of **discounts** include a cash discount, a price reduction to buyers who pay their bills promptly. A typical example is "2/10, net 30," which means that although payment is due within 30 days, the buyer can deduct 2 percent if the bill is paid within 10 days. A quantity discount is a price reduction to buyers who buy large volumes. A seller offers a functional discount (also called a trade discount) to trade-channel members who perform certain functions, such as selling, storing, and record keeping. A seasonal discount is a price reduction to buyers who buy merchandise or services out of season.

Allowances are another type of reduction from the list price. For example, trade-in allowances are price reductions given for turning in an old item when buying a new one. Tradein allowances are most common in the automobile industry but are also given for other durable goods. Promotional allowances are payments or price reductions to reward dealers for participating in advertising and sales support programs.

Segmented Pricing

Companies will often adjust their basic prices to allow for differences in customers, products, and locations. In **segmented pricing**, the company sells a product or service at two or more prices, even though the difference in prices is not based on differences in costs.

Strategy Description

Discount and allowance pricing Reducing prices to reward customer responses such as paying early or promoting the product Segmented pricing Adjusting prices to allow for differences in customers, products, or locations Psychological pricing Adjusting prices for psychological effect Promotional pricing Temporarily reducing prices to increase short-run sales Geographical pricing Adjusting prices to account for the geographic location of customers Dynamic pricing Adjusting prices continually to meet the characteristics and needs of individual customers and situations International pricing Adjusting prices for international markets

Psychological Pricing

Price says something about the product. For example, many consumers use price to judge quality. A $100 bottle of perfume may contain only $3 worth of scent, but some people are willing to pay the $100 because this price indicates something special. In using **psychological pricing**, sellers consider the psychology of prices, not simply the economics. For example, consumers usually perceive higher-priced products as having higher quality. When they can judge the quality of a product by examining it or by calling on past experience with it, they use price less to judge quality. But when they cannot judge quality because they lack the information or skill, price becomes an important quality signal. For example, who’s the better lawyer, one who charges $50 per hour or one who charges $500 per hour? You’d have to do a lot of digging into the respective lawyers’ credentials to answer this question objectively; even then, you might not be able to judge accurately. Most of us would simply assume that the higher-priced lawyer is better.

Another aspect of psychological pricing is **reference prices**—prices that buyers carry in their minds and refer to when looking at a given product. The reference price might be formed by noting current prices, remembering past prices, or assessing the buying situation. Sellers can influence or use these consumers’ reference prices when setting price. For example, a grocery retailer might place its store brand of bran flakes and raisins cereal priced at $1.89 next to Kellogg’s Raisin Bran priced at $3.20. Or a company might offer more expensive models that don’t sell very well to make their less expensive but still high- priced models look more affordable by comparison:

Promotional Pricing

With **promotional pricing**, companies will temporarily price their products below list price and sometimes even below cost to create buying excitement and urgency. Promotional pricing takes several forms. A seller may simply offer discounts from normal prices to inc rease sales and reduce inventories. Sellers also use special-event pricing in certain seasons to draw more customers. Thus, large-screen TVs and other consumer electronics are promotionally priced in November and December to attract holiday shoppers into the stores. Manufacturers sometimes offer cash rebates to consumers who buy the product from dealers within a specified time; the manufacturer sends the rebate directly to the customer. Rebates have been popular with automakers and producers of cell phones and small appliances, but they are also used with consumer packaged goods. Some manufacturers offer lowinterest financing, longer warranties, or free maintenance to reduce the consumer's "price." This practice has become another favorite of the auto industry. Promotional pricing, however, can have adverse effects. Used too frequently and copied by competitors, price promotions can create "deal-prone" customers who wait until brands go on sale before buying them. Or, constantly reduced prices can erode a brand's value in the eyes of customers. Marketers sometimes become addicted to promotional pricing, especially in difficult economic times. They use price promotions as a quick fix instead of sweating through the difficult process of developing effective longer-term strategies for building their brands. But companies must be careful to balance short-term sales incentives against long-term brand building. One analyst advises:

Uniform-delivered pricing is the opposite of FOB pricing. Here, the company charges the same price plus freight to all customers, regardless of their location. The freight charge is set at the average freight cost. Suppose this is $150. Uniform-delivered pricing therefore results in a higher charge to the Atlanta customer (who pays $150 freight instead of $100) and a lower charge to the Compton customer (who pays $150 instead of $250). Although the Atlanta customer would prefer to buy paper from another local paper company that uses FOB-origin pricing, Peerless has a better chance of winning over the California customer.

Zone pricing falls between FOB-origin pricing and uniform-delivered pricing. The company sets up two or more zones. All customers within a given zone pay a single total price; the more distant the zone, the higher the price. For example, Peerless might set up an East Zone and charge $100 freight to all customers in this zone, a Midwest Zone in which it charges $150, and a West Zone in which it charges $250. In this way, the customers within a given price zone receive no price advantage from the company. For example, customers in Atlanta and Boston pay the same total price to Peerless. The complaint, however, is that the Atlanta customer is paying part of the Boston customer's freight cost. Using **basing-point pricing**, the seller selects a given city as a "basing point" and charges all customers the freight cost from that city to the customer location, regardless of the city from which the goods are actually shipped. For example, Peerless might set Chicago as the basing point and charge all customers $10,000 plus the freight from Chicago to their locations. This means that an Atlanta customer pays the freight cost from Chicago to Atlanta, even though the goods may be shipped from Atlanta. If all sellers used the same basing-point city, delivered prices would be the same for all customers, and price competition would be eliminated. on the fly according to changes in demand or costs, changing prices for specific items on a day-by-day or even hour-by-hour basis. And many direct marketers monitor inventories, costs, and demand at any given moment and adjust prices instantly.

Consumers also benefit from the Internet and dynamic pricing. A wealth of price comparison sites—such as Yahoo! Shopping, Bizrate.com, NexTag.com, Epinions.com, PriceGrabber.com, mySimon.com, and PriceScan.com—offer instant product and price comparisons from thousands of vendors. Epinions.com, for instance, lets shoppers browse by category or search for specific products and brands. It then searches the Web and reports back links to sellers offering the best prices along with customer reviews. In addition to simply finding the best product and the vendor with the best price for that product, customers armed with price information can often negotiate lower prices.

In addition, consumers can negotiate prices at online auction sites and exchanges. Suddenly the centuries-old art of haggling is back in vogue. Want to sell that antique pickle jar that's been collecting dust for generations? Post it on eBay, the world's biggest online flea market. Want to name your own price for a hotel room or rental car? Visit Priceline.com or another reverse auction site. Want to bid on a ticket to a Coldplay show? Check out Ticketmaster.com, which now offers an online auction service for concert tickets.

Dynamic pricing makes sense in many contexts; it adjusts prices according to market forces, and it often works to the benefit of the customer. But marketers need to be careful not to use dynamic pricing to take advantage of certain customer groups, damaging important customer relationships.

International Pricing

Companies that market their products internationally must decide what prices to charge in the different countries in which they operate. In some cases, a company can set a uniform worldwide price. For example, Boeing sells its jetliners at about the same price everywhere, whether in the United States, Europe, or a third-world country. However, most companies adjust their prices to reflect local market conditions and cost considerations.

Price has become a key element in the international marketing strategies of companies attempting to enter emerging markets, such as China, India, and Brazil. Consider Unilever's pricing strategy for developing countries:

There used to be one way to sell a product in developing markets, if you bothered to sell there at all: Slap on a local label and market at premium prices to the elite. Unilever—the maker of such brands as Dove, Lipton, and Vaseline—changed that. Instead, it built a following among the world's poorest consumers by shrinking packages to set a price even consumers living on $2 a day could afford. The strategy was forged about 25 years ago when Unilever's Indian subsidiary found its products out of reach for millions of Indians. To lower the price while making a profit, Unilever developed single-use packets for everything from shampoo to laundry detergent, costing just pennies a pack. The small, affordable packages put the company's premier brands within reach of the world's poor. Today, Unilever continues to woo cash-strapped customers with great success. For example, its approachable pricing helps explain why Unilever now captures 70 percent of the Brazil detergent market.

Price Changes

After developing their pricing structures and strategies, companies often face situations in which they must initiate price changes or respond to price changes by competitors. Initiating Price Changes In some cases, the company may find it desirable to initiate either a price cut or a price increase. In both cases, it must anticipate possible buyer and competitor reactions.

Initiating Price Cuts

Several situations may lead a firm to consider cutting its price. One such circumstance is excess capacity. Another is falling demand in the face of strong price competition or a weakened economy. In such cases, the firm may aggressively cut prices to boost sales and market share. But as the airline, fast-food, automobile, and other industries have learned in recent years, cutting prices in an industry loaded with excess capacity may lead to price wars as competitors try to hold onto market share.

A company may also cut prices in a drive to dominate the market through lower costs. Either the company starts with lower costs than its competitors, or it cuts prices in the hope of gaining market share that will further cut costs through larger volume. Lenovo uses an aggressive low-cost, low-price strategy to increase its share of the PC market in developing countries.

Buyer Reactions to Price Changes

Customers do not always interpret price changes in a straightforward way. Aprice increase, which would normally lower sales, may have some positive meanings for buyers. For example, what would you think if Rolex raised the price of its latest watch model? On the one hand, you might think that the watch is even more exclusive or better made. On the other hand, you might think that Rolex is simply being greedy by charging what the traffic will bear. Similarly, consumers may view a price cut in several ways. For example, what would you think if Rolex were to suddenly cut its prices? You might think that you are getting a better deal on an exclusive product. More likely, however, you'd think that quality had been reduced, and the brand's luxury image might be tarnished.

Competitor Reactions to Price Changes

A firm considering a price change must worry about the reactions of its competitors as well as those of its customers. Competitors are most likely to react when the number of firms involved is small, when the product is uniform, and when the buyers are well informed about products and prices. How can the firm anticipate the likely reactions of its competitors? The problem is complex because, like the customer, the competitor can interpret a company price cut in many ways. It might think the company is trying to grab a larger market share or that it's doing poorly and trying to boost its sales. Or it might think that the company wants the whole industry to cut prices to increase total demand.

Assessing and Responding to Competitor Price Changes

The company must guess each competitor's likely reaction. If all competitors behave alike, this amounts to analyzing only a typical competitor. In contrast, if the competitors do not behave alike—perhaps because of differences in size, market shares, or policies—then separate analyses are necessary. However, if some competitors will match the price change, there is good reason to expect that the rest will also match it. Responding to Price Changes

Here we reverse the question and ask how a firm should respond to a price change by a competitor. The firm needs to consider several issues: Why did the competitor change the price? Is the price change temporary or permanent? What will happen to the company's market share and profits if it does not respond? Are other competitors going to respond? Besides these issues, the company must also consider its own situation and strategy and possible customer reactions to price changes.

REVIEW QUESTIONS

1. Compare and contrast market-skimming and market penetration pricing strategies and discuss the conditions under which each is appropriate.

2. Name and briefly describe the five product mix pricing decisions.

3. Explain how discounts and allowances differ from promotional pricing.

4. Compare and contrast the geographic pricing strategies that companies use for customers located in different parts of the country or the world. Which strategy is best?

5. What factors influence the prices a company charges in different countries?

6. Why would a company consider increasing its price? What precautions must be taken to avoid being perceived as a price gouger?

FURTHER READINGS

1. Marketing management-S.Jaychandran
2. Marketing management and strategy-Peter dayal, Philip stern
3. Marketing management-Dhawan and sundaram
4. Marketing management-s.h.h. kajami
5. Marketing management-montgue brown

UNIT-12 MARKETING CHANNELS DELIVERING CUSTOMER VALUE

CONTENTS

INTRODUCTION

Producing a product or service and making it available to buyers requires building relationships not only with customers but also with key suppliers and resellers in the company's supply chain. This supply chain consists of upstream and downstream partners. Upstream from the company is the set of firms that supply the raw materials, components, parts, information, finances, and expertise needed to create a product or service. Marketers, however, have traditionally focused on the downstream side of the supply chain—on the marketing channels (or distribution channels) that look toward the customer. Downstream marketing channel partners, such as wholesalers and retailers, form a vital connection between the firm and its customers.

The term supply chain may be too limited—it takes a make-and-sell view of the business. It suggests that raw materials, productive inputs, and factory capacity should serve as the starting point for market planning. Abetter term would be demand chain because it suggests a sense-and-respond view of the market. Under this view, planning starts by identifying the needs of target customers, to which the company responds by organizing a chain of resources and activities with the goal of creating customer value.

The Nature and Importance of Marketing Channels

Few producers sell their goods directly to final users. Instead, most use intermediaries to bring their products to market. They try to forge a **marketing channel** (or **distribution channel**)—a set of interdependent organizations that help make a product or service available for use or consumption by the consumer or business user.

A company's channel decisions directly affect every other marketing decision. Pricing depends on whether the company works with national discount chains, uses high-quality specialty stores, or sells directly to consumers via the Web. The firm's sales force and communications decisions depend on how much persuasion, training, motivation, and support its channel partners need. Whether a company develops or acquires certain new products may depend on how well those products fit the capabilities of its channel members.

In making products and services available to consumers, channel members add value by bridging the major time, place, and possession gaps that separate goods and services from those who use them. Members of the marketing channel perform many key functions. Some help to complete transactions:

• Information: Gathering and distributing marketing research and intelligence information about actors and forces in the marketing environment needed for planning and aiding exchange.

• Promotion: Developing and spreading persuasive communications about an offer.

• Contact: Finding and communicating with prospective buyers.

• Matching: Shaping and fitting the offer to the buyer's needs, including activities such as manufacturing, grading, assembling, and packaging.

• Negotiation: Reaching an agreement on price and other terms of the offer so that ownership or possession can be transferred.

Others help to fulfill the completed transactions:

• Physical distribution: Transporting and storing goods.

• Financing: Acquiring and using funds to cover the costs of the channel work.

• Risk taking: Assuming the risks of carrying out the channel work.

The question is not whether these functions need to be performed—they must be—but rather who will perform them. To the extent that the manufacturer performs these functions, its costs go up, and, therefore, its prices must be higher. When some of these functions are shifted to intermediaries, the producer's costs and prices may be lower, but the intermediaries must charge more to cover the costs of their work. In dividing the work of the channel, the various functions should be assigned to the channel members who can add the most value for the cost.

Number of Channel Levels

Companies can design their distribution channels to make products and services available to customers in different ways. Each layer of marketing intermediaries that performs some work in bringing the product and its ownership closer to the final buyer is a **channel level**.

Because both the producer and the final consumer perform some work, they are part of every channel.

Channel Behavior and Organization

Distribution channels are more than simple collections of firms tied together by various flows. They are complex behavioral systems in which people and companies interact to accomplish individual, company, and channel goals. Some channel systems consist of only informal interactions among loosely organized firms. Others consist of formal interactions guided by strong organizational structures. Moreover, channel systems do not stand still; new types of intermediaries emerge, and whole new channel systems evolve. Here we look at channel behavior and how members organize to do the work of the channel.

Channel Behavior

A marketing channel consists of firms that have partnered for their common good. Each channel member depends on the others. For example, a Ford dealer depends on Ford to design cars that meet customer needs. In turn, Ford depends on the dealer to attract customers, persuade them to buy Ford cars, and service the cars after the sale. Each Ford dealer also depends on other dealers to provide good sales and service that will uphold the brand's reputation. In fact, the success of individual Ford dealers depends on how well the entire Ford marketing channel competes with the channels of other auto manufacturers.

Each channel member plays a specialized role in the channel. For example, the role of consumer electronics maker Samsung is to produce electronics products that consumers will like and create demand through national advertising. Best Buy's role is to display these Samsung products in convenient locations, answer buyers' questions, and complete sales. The channel will be most effective when each member assumes the tasks it can do best. Ideally, because the success of individual channel members depends on overall channel success, all channel firms should work together smoothly. They should understand and accept their roles, coordinate their activities, and cooperate to attain overall channel goals.

Channel conflict

Disagreement among marketing channel members on goals, roles, and rewards—than just boxes and arrows on paper. They are behavioural systems made up of real companies and people who interact to accomplish their individual and collective goals. Like groups of people, sometimes they who should do what and for what rewards. Channels are made up of more work well together and sometimes they don't.

A **conventional distribution channel** consists of one or more independent producers, wholesalers, and retailers. Each is a separate business seeking to maximize its own profits, perhaps even at the expense of the system as a whole. No channel member has much control over the other members, and no formal means exists for assigning roles and resolving channel conflict.

In contrast, a **vertical marketing system (VMS)** consists of producers, wholesalers, and retailers acting as a unified system. One channel member owns the others, has contracts with them, or wields so much power that they must all cooperate. The VMS can be dominated by the producer, the wholesaler, or the retailer.

We look now at three major types of VMSs: corporate, contractual, and administered. Each uses a different means for setting up leadership and power in the channel.

Corporate VMS

A**corporate VMS** integrates successive stages of production and distribution under single ownership. Coordination and conflict management are attained through regular organizational channels. For example, the grocery giant Kroger owns and operates 40 manufacturing plants—18 dairies, 10 deli and bakery plants, five grocery product plants, three beverage plants, two meat plants, and two cheese plants—that crank out 40 percent of the more than 14,000 private label items found on its store shelves. Little-known Italian eyewear maker Luxottica produces many famous eyewear brands—including its own Ray-Ban and Oakley brands and licensed brands such as Burberry, Chanel, Polo Ralph Lauren, Dolce&Gabbana, Donna Karan, Prada, Versace, and Bulgari. It then sells these brands through some of the

Contractual VMS

A**contractual VMS** consists of independent firms at different levels of production and distribution who join together through contracts to obtain more economies or sales impact than each could achieve alone. Channel members coordinate their activities and manage conflict through contractual agreements.

Administered VMS

In an **administered VMS**, leadership is assumed not through common ownership or contractual ties but through the size and power of one or a few dominant channel members. Manufacturers of a top brand can obtain strong trade cooperation and support from resellers.

For example, GE, P&G, and Kraft can command unusual cooperation from resellers regarding displays, shelf space, promotions, and price policies. In turn, large retailers such as Walmart, Home Depot, and Barnes & Noble can exert strong influence on the many manufacturers that supply the products they sell.

Horizontal Marketing Systems

Another channel development is the **horizontal marketing system**, in which two or more companies at one level join together to follow a new marketing opportunity. By working together, companies can combine their financial, production, or marketing resources to accomplish more than any one company could alone.

Companies might join forces with competitors or noncompetitors. They might work with each other on a temporary or permanent basis, or they may create a separate company. For example, McDonald’s places “express” versions of its restaurants in Walmart stores.

Multichannel Distribution System

Changing Channel Organization

Changes in technology and the explosive growth of direct and online marketing are having a profound impact on the nature and design of marketing channels. One major trend is toward **disintermediation**—a big term with a clear message and important consequences.

Disintermediation occurs when product or service producers cut out intermediaries and go directly to final buyers or when radically new types of channel intermediaries displace traditional ones.

Thus, in many industries, traditional intermediaries are dropping by the wayside. For example, Southwest, JetBlue, and other airlines sell tickets directly to final buyers, cutting travel agents from their marketing channels altogether. In other cases, new forms of resellers are displacing traditional intermediaries. For example, online marketers have taken business from traditional brick-and-mortar retailers. Consumers can buy hotel rooms and airline tickets from Expedia.com and Travelocity.com; electronics from Sonystyle.com; clothes and accessories from Bluefly.com; and books, videos, toys, jewelry, sports, consumer electronics, home and garden items, and almost anything else fromAmazon.com—all without ever stepping into a traditional retail store. Online music download services such as iTunes and Amazon.com are threatening the very existence of traditional music-store retailers. In fact, once-dominant music retailers such as Tower Records have declared bankruptcy and closed their doors for good.

Disintermediation presents both opportunities and problems for producers and resellers. Channel innovators who find new ways to add value in the channel can sweep aside traditional resellers and reap the rewards. In turn, traditional intermediaries must continue to innovate to avoid being swept aside. For example, when Netflix pioneered online video rentals, it sent traditional brick-and-mortar video stores such as Blockbuster reeling. To meet the threat, Blockbuster developed its own online DVD rental service, but it was too little too late. In late 2010, Blockbuster declared Unit 11 bankruptcy and closed hundreds of stores. Now, both Netflix and a reorganized Blockbuster face disintermediation threats from an even hotter channel—digital video downloads and video on demand. But instead of simply watching digital video distribution developments, Netflix intends to lead them:7 Netflix has already added a "Watch Instantly" feature to its Web site that allows subscribers to instantly stream near-DVD quality video for a growing list of movie titles and TV programs. And it recently announced that it will soon let users stream movies to selected cell phones. "Our intention," says Netflix founder and CEO Reed Hastings, "is to get [our Watch Instantly] service to every Internet-connected screen, from cell phones to laptops to Wi-Fi-enabled plasma screens." In this way, Netflix plans to disintermediate its own distribution model before others can do it. To Hastings, the key to the future is all in how Netflix defines itself. "If [you] think of Netflix as a DVD rental business, [you're] right to be scared," he says. But "if [you] think of Netflix as an online movie service with multiple different delivery models, then [you're] a lot less scared. We're only now starting to deliver [on] that second vision." Similarly, to remain competitive, product and service producers must develop new channel opportunities, such as the Internet and other direct channels. However, developing these new channels often brings them into direct competition with their established channels, resulting in conflict. To ease this problem, companies often look for ways to make going direct a plus for the entire channel.

Types of Intermediaries

A firm should identify the types of channel members available to carry out its channel work. Most companies face many channel member choices. For example, until recently, Dell sold directly to final consumers and business buyers only through its sophisticated phone and Internet marketing channel. It also sold directly to large corporate, institutional, and government buyers using its direct sales force. However, to reach more consumers and match competitors such as HP, Dell now sells indirectly through retailers such as Best Buy, Staples and Walmart. It also sells indirectly through value-added resellers, independent distributors and dealers who develop computer systems and applications tailored to the special needs of small- and medium-sized business customers.

Using many types of resellers in a channel provides both benefits and drawbacks. For example, by selling through retailers and value-added resellers in addition to its own direct channels, Dell can reach more and different kinds of buyers. However, the new channels will be more difficult to manage and control. And the direct and indirect channels will compete with each other for many of the same customers, causing potential conflict. In fact, Dell often finds itself “stuck in the middle,” with its direct sales reps complaining about competition from retail stores, while its value-added resellers complain that the direct sales reps are undercutting their business.

Number of Marketing Intermediaries

Companies must also determine the number of channel members to use at each level. Three strategies are available: intensive distribution, exclusive distribution, and selective distribution. Producers of convenience products and common raw materials typically seek

Intensive distribution—a strategy in which they stock their products in as many outlets

Stocking the product in as many outlets as possible. as possible. These products must be available where and when consumers want them. For example, toothpaste, candy, and other similar items are sold in millions of outlets to provide maximum brand exposure and consumer convenience. Between intensive and exclusive distribution lies

Selective distribution—the use of more than one but fewer than all the intermediaries who are willing to carry a company’s products. Most television, furniture, and home appliance brands are distributed in this manner. For example, Whirlpool and GE sell their major appliances through dealer networks and selected large retailers. By using selective distribution, they can develop good working relationships with selected channel members and expect a better-than-average selling effort. Selective distribution gives producers good market coverage with more control and less cost than does intensive distribution.

Responsibilities of Channel Members

The producer and the intermediaries need to agree on the terms and responsibilities of each channel member. They should agree on price policies, conditions of sale, territory rights, and the specific services to be performed by each party. The producer should establish a list price and a fair set of discounts for the intermediaries. It must define each

channel member's territory, and it should be careful about where it places new resellers.
Mutual services and duties need to be spelled out carefully, especially in franchise and exclusive distribution channels. For example, McDonald's provides franchisees with promotional support, a record-keeping system, training at Hamburger University, and general management assistance. In turn, franchisees must meet company standards for physical facilities and food quality, cooperate with new promotion programs, provide requested information, and buy specified food products.

Evaluating the Major Alternatives

Suppose a company has identified several channel alternatives and wants to select the one that will best satisfy its long-run objectives. Each alternative should be evaluated against economic, control, and adaptability criteria. Using economic criteria, a company compares the likely sales, costs, and profitability of different channel alternatives. What will be the investment required by each channel alternative, and what returns will result? The company must also consider control issues. Using intermediaries usually means giving them some control over the marketing of the product, and some intermediaries take more control than others. Other things being equal, the company prefers to keep as much control as possible. Finally, the company must apply adaptability criteria. Channels often involve long-term commitments, yet the company wants to keep the channel flexible so that it can adapt to environmental changes. Thus, tobe considered, a channel involving long-term commitments should be greatly superior on economic and control grounds.

Designing International Distribution Channels

International marketers face many additional complexities in designing their channels. Each country has its own unique distribution system that has evolved over time and changes very slowly. These channel systems can vary widely from country to country. Thus, global marketers must usually adapt their channel strategies to the existing structures within each country. In some markets, the distribution system is complex and hard to penetrate, consisting of many layers and large numbers of intermediaries. For example, many Western companies find Japan's distribution system difficult to navigate. It's steeped in tradition and very complex, with many distributors touching one product before it makes it to the store shelf. At the other extreme, distribution systems in developing countries may be scattered, inefficient, or altogether lacking. For example, China and India are huge markets—each with a population well over one billion people. However, because of inadequate distribution systems, most companies can profitably access only a small portion of the population located in each country's most affluent cities. "China is a very decentralized market," notes a China trade expert. "[It's] made up of two dozen distinct markets sprawling across 2,000 cities.

Channel Management Decisions

Once the company has reviewed its channel alternatives and determined the best channel design, it must implement and manage the chosen channel. **Marketing channel management** calls for selecting, managing, and motivating individual channel members and evaluating their performance over time.

Selecting Channel Members

Producers vary in their ability to attract qualified marketing intermediaries. Some producers have no trouble signing up channel members. For example, when Toyota first introduced its Lexus line in the United States, it had no trouble attracting new dealers. In fact, it had to turn down many would-be resellers.

At the other extreme are producers who have to work hard to line up enough qualified intermediaries. For example, when Timex first tried to sell its inexpensive watches through regular jewelry stores, most jewelry stores refused to carry them. The company then managed to get its watches into mass-merchandise outlets. This turned out to be a wise decision because of the rapid growth of mass merchandising.

Even established brands may have difficulty gaining and keeping desired distribution, especially when dealing with powerful resellers. For example, in an effort to streamline its product assortment, Walmart recently removed Glad and Hefty food storage bags from its shelves. It now carries only Ziploc and its own Great Value store brand (produced by the makers of Hefty). Walmart’s decision was a real blow to the Glad and Hefty brands, which captured one-third or more of their sales through the giant retailer.

When selecting intermediaries, the company should determine what characteristics distinguish the better ones. It will want to evaluate each channel member’s years in business, other lines carried, growth and profit record, cooperativeness, and reputation. If the intermediaries are sales agents, the company will want to evaluate the number and character of other lines carried and the size and quality of the sales force. If the intermediary is a retail store that wants exclusive or selective distribution, the company will want to evaluate the store’s customers, location, and future growth potential.

Managing and Motivating Channel Members

Once selected, channel members must be continuously managed and motivated to do their best. The company must sell not only through the intermediaries but also to and with them. Most companies see their intermediaries as first-line customers and partners. They practice strong partner relationship management (PRM) to forge long-term partnerships with channel members. This creates a value delivery system that meets the needs of both the company and its marketing partners.

In managing its channels, a company must convince distributors that they can succeed better by working together as a part of a cohesive value delivery system. Thus, P&G works closely with Target to create superior value for final consumers. The two jointly plan merchandising goals and strategies, inventory levels, and advertising and promotion programs. Similarly, heavy-equipment manufacturer Caterpillar and its worldwide network of independent dealers work in close harmony to find better ways to bring value to customers. One-hundred-year-old Caterpillar produces innovative, high-quality products. Yet the most important reason for Caterpillar’s dominance is its distribution network of 220 outstanding independent dealers worldwide. Caterpillar and its dealers work as partners. According to a former Caterpillar CEO: "After the product leaves our door, the dealers take over. They are the ones on the front line. They're the ones who live with the product for its lifetime. They're the ones customers see." When a big piece of Caterpillar equipment breaks down, customers know that they can count on Caterpillar and its outstanding dealer network for support. Dealers play a vital role in almost every aspect of Caterpillar's operations, from product design and delivery to product service and support.

Evaluating Channel Members

The company must regularly check channel member performance against standards such as

sales quotas, average inventory levels, customer delivery time, treatment of damaged and lost goods, cooperation in company promotion and training programs, and services to the customer. The company should recognize and reward intermediaries who are performing well and adding good value for consumers. Those who are performing poorly should be assisted or, as a last resort, replaced.

Finally, companies need to be sensitive to their channel partners. Those who treat their partners poorly risk not only losing their support but also causing some legal problems. The next section describes various rights and duties pertaining to companies and other channel members.

Public Policy and Distribution Decisions

For the most part, companies are legally free to develop whatever channel arrangements suit them. In fact, the laws affecting channels seek to prevent the exclusionary tactics of some companies that might keep another company from using a desired channel. Most channel law deals with the mutual rights and duties of channel members once they have formed a relationship.

Many producers and wholesalers like to develop exclusive channels for their products. When the seller allows only certain outlets to carry its products, this strategy is called exclusive distribution. When the seller requires that these dealers not handle competitors' products, its strategy is called exclusive dealing. Both parties can benefit from exclusive arrangements: The seller obtains more loyal and dependable outlets, and the dealers obtain a steady source of supply and stronger seller support. But exclusive arrangements also exclude other producers from selling to these dealers. This situation brings exclusive dealing contracts under the scope of the Clayton Act of 1914. They are legal as long as they do not substantially lessen competition or tend to create a monopoly and as long as both parties enter into the agreement voluntarily. Exclusive dealing often includes exclusive territorial agreements. The producer may agree not to sell to other dealers in a given area, or the buyer may agree to sell only in its own territory. The first practice is normal under franchise systems as a way to increase dealer enthusiasm and commitment. It is also perfectly legal—a seller has no legal obligation to sell through more outlets than it wishes. The second practice, whereby the producer tries to keep a dealer from selling outside its territory, has become a major legal issue. Producers of a strong brand sometimes sell it to dealers only if the dealers will take some or all the rest of the line. This is called full-line forcing. Such tying agreements are not necessarily illegal, but they violate the Clayton Act if they tend to lessen competition substantially.

The practice may prevent consumers from freely choosing among competing suppliers of these other brands. Finally, producers are free to select their dealers, but their right to terminate dealers is somewhat restricted. In general, sellers can drop dealers "for cause." However, they cannot drop dealers if, for example, the dealers refuse to cooperate in a doubtful legal arrangement, such as exclusive dealing or tying agreements.

Marketing Logistics and Supply Chain Management

In today's global marketplace, selling a product is sometimes easier than getting it to customers. Companies must decide on the best way to store, handle, and move their products and services so that they are available to customers in the right assortments, at the right time, and in the right place. Logistics effectiveness has a major impact on both customer satisfaction and company costs. Here we consider the nature and importance of logistics management in the supply chain, the goals of the logistics system, major logistics functions, and the need for integrated supply chain management.

Nature and Importance of Marketing Logistics

To some managers, marketing logistics means only trucks and warehouses. But modern logistics is much more than this. **Marketing logistics**—also called **physical distribution**— involves planning, implementing, and controlling the physical flow of goods, services, and related information from points of origin to points of consumption to meet customer requirements at a profit. In short, it involves getting the right product to the right customer in the right place at the right time.

In the past, physical distribution planners typically started with products at the plant and then tried to find low-cost solutions to get them to customers. However, today's marketers prefer customer-centered logistics thinking, which starts with the marketplace and works backward to the factory or even to sources of supply. Marketing logistics involves not only outbound distribution (moving products from the factory to resellers and ultimately to customers) but also inbound distribution (moving products and materials from suppliers to the factory) and reverse distribution (moving broken, unwanted, or excess products returned by consumers or resellers).

Warehousing

Production and consumption cycles rarely match, so most companies must store their goods while they wait to be sold. For example, Snapper, Toro, and other lawn mower anufacturers
run their factories all year long and store up products for the heavy spring and summer buying seasons. The storage function overcomes differences in needed quantities and timing, ensuring that products are available when customers are ready to buy them.

A company must decide on how many and what types of warehouses it needs and where they will be located. The company might use either storage warehouses or distribution centers. Storage warehouses store goods for moderate to long periods. **Distribution centers** are designed to move goods rather than just store them. They are large and highly automated warehouses designed to receive goods from various plants and suppliers, take orders, fill them efficiently, and deliver goods to customers as quickly as possible. For example, Walmart operates a network of 147 huge distribution centers. A single center, serving the daily needs of 75–100 Walmart stores, typically contains some one million square feet of space (about 20 football fields) under a single roof. At a typical center, laser scanners route as many as 190,000 cases of goods per day along five miles of conveyer belts, and the center's 500 to 1,000 workers load or unload some 500 trucks daily. Walmart's Monroe, Georgia, distribution center contains a 127,000-square-foot freezer (that's about 2.5

Inventory Management

Inventory management also affects customer satisfaction. Here, managers must maintain the delicate balance between carrying too little inventory and carrying too much. With too little stock, the firm risks not having products when customers want to buy. To remedy this, the firm may need costly emergency shipments or production. Carrying too much inventory results in higher-than-necessary inventory-carrying costs and stock obsolescence. Thus, in managing inventory, firms must balance the costs of carrying larger inventories against resulting sales and profits.

Many companies have greatly reduced their inventories and related costs through justin- time logistics systems. With such systems, producers and retailers carry only small inventories of parts or merchandise, often enough for only a few days of operations. New stock arrives exactly when needed, rather than being stored in inventory until being used. Just-in time systems require accurate forecasting along with fast, frequent, and flexible delivery so that new supplies will be available when needed. However, these systems result in substantia savings in inventory-carrying and handling costs.

Marketers are always looking for new ways to make inventory management more efficient. In the not-too-distant future, handling inventory might even become fully automated. For example, in Unit 3 we discussed RFID or "smart tag" technology, by which small transmitter chips are embedded in or placed on products and packaging on everything from flowers and razors to tires. "Smart" products could make the entire supply chain—which accounts for nearly 75 percent of a product's cost—intelligent and automated. Companies using RFID would know, at any time, exactly where a product is located physically within the supply chain. "Smart shelves" would not only tell them when it's time to reorder but also place the order automatically with their suppliers. Such exciting new information technology applications will revolutionize distribution as we know it. Many large and resourceful marketing companies, such as Walmart, P&G, Kraft, IBM, HP, and Best Buy, are investing heavily to make the full use of RFID technology a reality.

Transportation

The choice of transportation carriers affects the pricing of products, delivery performance, and the condition of goods when they arrive—all of which will affect customer satisfaction. In shipping goods to its warehouses, dealers, and customers, the company can choose among five main transportation modes: truck, rail, water, pipeline, and air, along with an alternative mode for digital products—the Internet. Trucks have increased their share of transportation steadily and now account for more than 68 percent of total freight tonnage in the United States. U.S. trucks travel more than 431 billion miles a year—more than double the distance traveled 25 years ago—carrying 10.2 billion tons of freight. According to the American Trucking Association, 80 percent of U.S. communities depend solely on trucks for their goods and commodities. Trucks are highly flexible in their routing and time schedules, and they can usually offer faster service than railroads. They are efficient for short hauls of high-value merchandise. Trucking firms have evolved in recent years to become full-service providers of global transportation services.

Logistics Information Management

Companies manage their supply chains through information. Channel partners often link up to share information and make better joint logistics decisions. From a logistics perspective, flows of information, such as customer transactions, billing, shipment and inventory levels, and even customer data, are closely linked to channel performance. Companies need simple, accessible, fast, and accurate processes for capturing, processing, and sharing channel information. Information can be shared and managed in many ways, but most sharing takes place through traditional or Internet-based electronic data interchange (EDI), the computerized exchange of data between organizations, which primarily is transmitted via the Internet. Walmart, for example, requires EDI links with its more than 90,000 suppliers. If new suppliers don't have EDI capability, Walmart will work with them to find and implement the needed software. "EDI has proven to be the most efficient way of conducting business with our product suppliers," says Walmart. "This system of exchanging information . . . allows us to improve customer service, lower expenses, and increase productivity."

In some cases, suppliers might actually be asked to generate orders and arrange deliveries for their customers. Many large retailers—such as Walmart and Home Depot—work closely with major suppliers such as P&G or Black & Decker to set up vendor-managed inventory(VMI) systems or continuous inventory replenishment systems. Using VMI, the customer shares real-time data on sales and current inventory levels with the supplier. The supplier then takes full responsibility for managing inventories and deliveries. Some retailers even go so far as to shift inventory and delivery costs to the supplier. Such systems require close cooperation between the buyer and seller.

Integrated Logistics Management

Today, more and more companies are adopting the concept of **integrated logistics management**. This concept recognizes that providing better customer service and trimming distribution costs require teamwork, both inside the company and among all the marketing channel organizations. Inside, the company's various departments must work closely together to maximize its own logistics performance. Outside, the company must integrate its logistics system with those of its suppliers and customers to maximize the performance of the entire distribution network.

Cross-Functional Teamwork Inside the Company

Most companies assign responsibility for various logistics activities to many different departments—marketing, sales, finance, operations, and purchasing. Too often, each function tries to optimize its own logistics performance without regard for the activities of the other functions. However, transportation, inventory, warehousing, and information management activities interact, often in an inverse way. Lower inventory levels reduce inventory-carrying costs. But they may also reduce customer service and increase costs from stockouts, back orders, special production runs, and costly fast-freight shipments. Because distribution activities involve strong trade-offs, decisions by different functions must be coordinated to achieve better overall logistics performance.

The goal of integrated supply chain management is to harmonize all of the company's logistics decisions. Close working relationships among departments can be achieved in several ways. Some companies have created permanent logistics committees composed of managers responsible for different physical distribution activities. Companies can also create

Building Logistics Partnerships

Companies must do more than improve their own logistics. They must also work with other channel partners to improve whole-channel distribution. The members of a marketing channel are linked closely in creating customer value and building customer relationships. One company's distribution system is another company's supply system. The success of each channel member depends on the performance of the entire supply chain. For example, IKEA can create its stylish but affordable furniture and deliver the "IKEA lifestyle" only if its entire supply chain—consisting of thousands of merchandise designers and suppliers, transport companies, warehouses, and service providers—operates at maximum efficiency and customer-focused effectiveness.

Third-Party Logistics

Most big companies love to make and sell their products. But many loathe the associated logistics "grunt work." They detest the bundling, loading, unloading, sorting, storing, reloading, transporting, customs clearing, and tracking required to supply their factories and get products to their customers. They hate it so much that a growing number of firms now outsource some or all of their logistics to **third-party logistics (3PL) providers**. Here's an example: Whirlpool's ultimate goal is to create loyal customers who continue to buy its brands over their lifetimes. One key loyalty factor is good repair service, which in turn depends on fast and reliable parts distribution. Only a few years ago, however, Whirlpool's replacement parts distribution system was fragmented and ineffective,

REVIEW QUESTIONS

1. Describe Nature and Importance of Marketing Channels
2. Explain Channel conflict in supply chain.
3. Discuss about various types of Intermediaries
4. Describe the process of evaluating the Major Alternatives
5. Discuss about Channel Management Decisions
6. Describe Inventory Management and its process
7. What is Logistics Information Management? Describe Integrated Logistics Management.

FURTHER READINGS

1. Marketing management-S.Jaychandran
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3. Marketing management-Dhawan and sundaram
4. Marketing management-s.h.h. kajami
5. Marketing management-montgue brown

IMPORTANT NOTES

UNIT-13 RETAILING AND WHOLESALING

CONTENTS

RETAILING

What is retailing? We all know that Costco, Home Depot, Macy's, Best Buy, and Target are retailers, but so are Avon representatives, Amazon.com, the local Hampton Inn, and a doctor seeing patients. **Retailing** includes all the activities involved in selling products or services directly to final consumers for their personal, nonbusiness use. Many institutions— manufacturers, wholesalers, and retailers—do retailing. But most retailing is done by **retailers**, businesses whose sales come primarily from retailing.

Retailing plays a very important role in most marketing channels. Each year, retailers account for more than $4.1 trillion of sales to final consumers. They connect brands to consumers in what marketing agency Ogilvy Action, calls "the last mile"—the final stop in the consumer's path to purchase. It's the "distance a consumer travels between an attitude and an action," explains Ogilvy Action's CEO. Some 40 percent of all consumer decisions are made in or near the store. Thus, retailers "reach consumers at key moments of truth, ultimately [influencing] their actions at the point of purchase."2 In fact, many marketers are now embracing the concept of **shopper marketing**, using in-store promotions and advertising to extend brand equity to "the last mile" and encourage favorable in-store purchase decisions. Shopper marketing recognizes that the retail store itself is an important marketing medium. Thus, marketing must drive shoppers to action at the store level.

Retailer

A business whose sales come primarily from retailing. Shopper marketing involves focusing the entire marketing process—from product and brand development to logistics, promotion, and merchandising—toward turning shoppers into buyers at the point of sale. Of course, every well-designed marketing effort focuses on customer buying behavior. But the concept of shopper marketing suggests that these efforts should be coordinated around the shopping process itself. “By starting with the store and working backward, you design an integrated program that makes sense to the consumer.”5 Although most retailing is done in retail stores, in recent years non store retailing has been growing much faster than store retailing.

Type Description Examples

Specialty store

A store that carries a narrow product line with a deep assortment, such as apparel stores, sporting-goods stores, furniture stores, florists, and bookstores. A clothing store would be a single-line store, a men’s clothing store would be a limited-line store, and a men’s custom-shirt store would be a super specialty store. REI, Radio Shack, Williams-Sonoma

Department store

A store that carries several product lines—typically clothing, home furnishings, and household goods—with each line operated as a separate department managed by specialist buyers or merchandisers. Macy’s, Sears, Neiman Marcus Supermarket A relatively large, low-cost, low-margin, high-volume, self-service operation designed to serve the consumer’s total needs for grocery and household products. Kroger, Safeway, Supervalu, Publix

Convenience store

A relatively small store located near residential areas, open long hours seven days a week, and carrying a limited line of highturnover convenience products at slightly higher prices.

7-Eleven, Stop-N-Go, Circle K, Sheetz

Discount store

A store that carries standard merchandise sold at lower prices with lower margins and higher volumes. Walmart, Target, Kohl’s

Off-price retailer

A store that sells merchandise bought at less-than-regular wholesale prices and sold at less than retail: often leftover goods, overruns, and irregulars obtained at reduced prices from manufacturers or other retailers. These include factory outlets owned and operated by manufacturers; independent off-price retailers owned and run by entrepreneurs or by divisions of larger retail corporations; and warehouse (or wholesale) clubs selling a limited selection of brandname groceries, appliances, clothing, and other goods at deep discounts to consumers who pay membership fees. Mikasa (factory outlet); TJ Maxx (independent off-price retailer); Costco, Sam’s Club, BJ’s Wholesale Club (warehouse clubs) Superstore A very large store traditionally aimed at meeting consumers’ total needs for routinely purchased food and non food items. This category includes supercenters, combined supermarket and discount stores, and category killers, which carry a deep assortment in a particular category and have a knowledgeable staff. Walmart Supercenter, SuperTarget, Meijer (discount stores); Best Buy, PetSmart, Staples, Barnes & Noble (category killers)

Amount of Service

Different types of customers and products require different amounts of service. To meet these varying service needs, retailers may offer one of three service levels: self-service, limited service, and full service.

Self-service retailers serve customers who are willing to perform their own "locate compare- select" process to save time or money. Self-service is the basis of all discount operations and is typically used by retailers selling convenience goods (such as supermarkets) and nationally branded, fast-moving shopping goods (such as Target or Kohl's). Limited service retailers, such as Sears or JCPenney, provide more sales assistance because they carry more shopping goods about which customers need information. Their increased operating costs result in higher prices.

In full-service retailers, such as high-end specialty stores (for example, Tiffany or Williams-Sonoma) and first-class department stores (such as Nordstrom or Neiman Marcus), salespeople assist customers in every phase of the shopping process. Full-service stores usually carry more specialty goods for which customers need or want assistance or advice. They provide more services resulting in much higher operating costs, which are passed along to customers as higher prices.

Product Line

Retailers can also be classified by the length and breadth of their product assortments. Some retailers, such as **specialty stores**, carry narrow product lines with deep assortments within those lines. Today, specialty stores are flourishing. The increasing use of market segmentation, market targeting, and product specialization has resulted in a greater need for stores that focus on specific products and segments.

In contrast, **department stores** carry a wide variety of product lines. In recent years, department stores have been squeezed between more focused and flexible specialty stores on the one hand and more efficient, lower-priced discounters on the other. In response, many have added promotional pricing to meet the discount threat. Others have stepped up the use of store brands and single-brand "designer shops" to compete with specialty stores. Still others are trying catalog, telephone, and Web selling. Service remains the key differentiating factor. Retailers such as Nordstrom, Saks, Neiman Marcus, and other high-end department stores are doing well by emphasizing exclusive merchandise and high-quality service.

Supermarkets are the most frequently shopped type of retail store. Today, however, they are facing slow sales growth because of slower population growth and an increase in competition from discount supercenters (Walmart) on the one hand and specialty food stores (Whole Foods Market, Trader Joe's) on the other. Supermarkets also have been hit hard by the rapid growth of out-of-home eating over the past two decades. In fact, supermarkets' share of the groceries and consumables market plunged from 89 percent in 1989 to less than 50 percent in 2008.6 Thus, many traditional supermarkets are facing hard times.

Relative Prices

Retailers can also be classified according to the prices they charge. Most retailers charge regular prices and offer normal-quality goods and customer service. Others offer higher-quality goods and service at higher prices. Retailers that feature low prices are discount stores and "off-price" retailers.

Discount Stores. A**discount store** (e.g., Target, Kmart, and Walmart) sells standard merchandise at lower prices by accepting lower margins and selling higher volume. The early discount stores cut expenses by offering few services and operating in warehouselike facilities in low-rent, heavily traveled districts.

Today's discounters have improved their store environments and increased their services, while at the same time keeping prices low through lean, efficient operations. Leading "big-box" discounters, such as Walmart, Costco, and Target, now dominate the retail scene. However, even "small-box" discounters are thriving in the current economic environment. For example, dollar stores are now today's fastest-growing retail format. Dollar General, the nation's largest small-box discount retailer, makes a powerful value promise for the times: "Save time. Save money. Every day."

Off-Price Retailers. As the major discount stores traded up, a new wave of **off-price retailers** moved in to fill the ultralow-price, high-volume gap. Ordinary discounters buy at regular wholesale prices and accept lower margins to keep prices down. In contrast, offprice retailers buy at less-than-regular wholesale prices and charge consumers less than retail. Off-price retailers can be found in all areas, from food, clothing, and electronics to no-frills banking and discount brokerages.

The three main types of off-price retailers are independents, factory outlets, and warehouse clubs.

Independent off-price retailers either are independently owned and run or are divisions of larger retail corporations. Although many off-price operations are run by smaller independents, most large off-price retailer operations are owned by bigger retail chains. Examples include store retailers such as TJ Maxx and Marshalls, owned by TJX Companies, and Web sellers such as Overstock.com.

Factory outlets—manufacturer-owned and operated stores by firms such as J. Crew, Gap, Levi Strauss, and others—sometimes group together in factory outlet malls and valueretail centers, where dozens of outlet stores offer prices as much as 50 percent below retail on a wide range of mostly surplus, discounted, or irregular goods. Whereas outlet malls consist primarily of manufacturers' outlets, value-retail centers combine manufacturers' outlets

Warehouse club An off-price retailer that sells a limited selection of brand name grocery items, appliances, clothing, and a hodgepodge of other goods at deep discounts to members who pay annual membership fees.

Chain stores are two or more outlets that are commonly owned and controlled. They have many advantages over independents. Their size allows them to buy in large quantities at lower prices and gain promotional economies. They can hire specialists to deal with areas such as pricing, promotion, merchandising, inventory control, and sales forecasting. The great success of corporate chains caused many independents to band together in one of two forms of contractual associations. One is the voluntary chain—a wholesaler sponsored group of independent retailers that engages in group buying and common merchandising.

Chain stores

Two or more outlets that are commonly owned and controlled.

Franchise

A contractual association between a manufacturer, wholesaler, or service organization (a franchisor) and independent businesspeople (franchisees) who buy the right to own and operate one or more units in the franchise system.

Corporate chain store

Two or more outlets that are commonly owned and controlled. Corporate chains appear in all types of retailing, but they are strongest in department stores, discount stores, food stores, drug stores, and restaurants. Sears (department stores), Target (discount stores), Kroger (grocery stores), CVS (drugstores) Voluntary chain Wholesaler-sponsored group of independent retailers engaged in group buying and merchandising. Independent Grocers Alliance (IGA), Do-It Best (hardware), Western Auto, True Value Retailer Cooperative Group of independent retailers who jointly establish a central buying organization and conduct joint promotion efforts.

Segmentation, Targeting, Differentiation, and Positioning Decisions

Retailers must first segment and define their target markets and then decide how they will differentiate and position themselves in these markets. Should the store focus on upscale, midscale, or downscale shoppers? Do target shoppers want variety, depth of assortment, convenience, or low prices? Until they define and profile their markets, retailers cannot make consistent decisions about product assortment, services, pricing, advertising, store décor, or any of the other decisions that must support their positions. Too many retailers, even big ones, fail to clearly define their target markets and positions. For example, what market does the clothing chain Gap target? What is its value proposition and positioning? If you're having trouble answering those questions, you're not alone—so is Gap's management.14

Product Assortment and Services Decision

Retailers must decide on three major product variables: product assortment, services mix, and store atmosphere. The retailer's product assortment should differentiate the retailer while matching target shoppers' expectations. One strategy is to offer merchandise that no other competitor carries, such as store brands or national brands on which it holds exclusives.

The services mix can also help set one retailer apart from another. For example, some retailers invite customers to ask questions or consult service representatives in person or via phone or keyboard. Nordstrom promises to "take care of the customer, no matter what it takes." Home Depot offers a diverse mix of services to do-it-yourselfers, from "howto" classes and "do-itherself" and kid workshops to a proprietary credit card.

Price Decision

A retailer's price policy must fit its target market and positioning, product and service assortment, the competition, and economic factors. All retailers would like to charge high markups and achieve high volume, but the two seldom go together. Most retailers seek either high markups on lower volume (most specialty stores) or low markups on higher volume (mass merchandisers and discount stores).

Promotion Decision

Retailers use any or all of the five promotion tools—advertising, personal selling, sales promotion, public relations (PR), and direct marketing—to reach consumers. They advertise in newspapers and magazines and on the radio, television, and the Internet. Advertising may be supported by newspaper inserts and catalogs. Store salespeople greet customers, meet their needs, and build relationships. Sales promotions may include in-store demonstrations, displays, sales, and loyalty programs. PR activities, such as store openings, special events, newsletters and blogs, store magazines, and public service activities, are always available to retailers. Most retailers have also created Web sites, offering customers information and other features and selling merchandise directly.

Place Decision

Retailers often point to three critical factors in retailing success: location, location, and location! It's very important that retailers select locations that are accessible to the target market in areas that are consistent with the retailer's positioning. For example, Apple locates its stores

New Retail Forms, Shortening Retail Life Cycles, and Retail Convergence

New retail forms continue to emerge to meet new situations and consumer needs, but the life cycle of new retail forms is getting shorter. Department stores took about 100 years to reach the mature stage of the life cycle; more recent forms, such as warehouse stores, reached maturity in about 10 years. In such an environment, seemingly solid retail positions can crumble quickly. Of the top 10 discount retailers in 1962 (the year that Walmart and Kmart began), not one exists today. Even the most successful retailers can't sit back with a winning formula. To remain successful, they must keep adapting.

Many retailing innovations are partially explained by the **wheel-of-retailing concept**. According to this concept, many new types of retailing forms begin as low margin, low-price, and low-status operations. They challenge established retailers that have become "fat" by letting their costs and margins increase. The new retailers' success leads them to upgrade their facilities and offer more services. In turn, their costs increase, forcing them to increase their prices. Eventually, the new retailers become like the conventional retailers they replaced. The cycle begins again when still newer types of retailers evolve with lower costs and prices. The wheel-of-retailing concept seems to explain the initial success and later troubles of department stores, supermarkets, and discount stores and the recent success of off-price retailers. Although new retail forms are always emerging, today's forms appear to be converging. Increasingly, different types of retailers now sell the same products at the same prices to the same consumers. For example, you can buy brand-name home appliances at department stores, discount stores, home improvement stores, off-price retailers, electronics superstores, and a slew of Web sites that all compete for the same customers. So if you can't find the microwave oven you want at Sears, step across the street and find one for a better price at Lowe's or Best Buy—or just order one online from Amazon.com or even RitzCamera.com. This merging of consumers, products, prices, and retailers is called retail convergence. Such convergence means greater competition for retailers and greater difficulty in differentiating the product assortments of different types of retailers.

The Rise of Megaretailers

The rise of huge mass merchandisers and specialty superstores, the formation of vertical marketing systems, and a rash of retail mergers and acquisitions have created a core of superpower megaretailers. Through their superior information systems and buying power, these giant retailers can offer better merchandise selections, good service, and strong price savings to consumers. As a result, they grow even larger by squeezing out their smaller, weaker competitors. The megaretailers have shifted the balance of power between retailers and producers.

Growth of Nonstore Retailing

Most of us still make most of our purchases the old-fashioned way: We go to the store, find what we want, wait patiently in line to plunk down our cash or credit card, and bring home the goods. However, consumers now have a broad array of nonstore alternatives, including mail order, phone, and online shopping. Americans are increasingly avoiding the hassles and crowds at malls by doing more of their shopping by phone or computer. As we'll discuss in Unit 17, direct and online marketing are currently the fastest-growing forms of marketing.

Growing Importance of Retail Technology

Retail technologies have become critically important as competitive tools. Progressive retailers are using advanced IT and software systems to produce better forecasts, control inventory costs, interact electronically with suppliers, send information between stores, and even sell to customers within stores. They have adopted sophisticated systems for checkout scanning, RFID inventory tracking, merchandise handling, information sharing, and interacting with customers.

Perhaps the most startling advances in retail technology concern the ways in which retailers are connecting with consumers. Today's customers have gotten used to the speed and convenience of buying online and to the control that the Internet gives them over the buying process. The Web lets consumers shop when they like and where they like, with instant access to gobs of information about competing products and prices. No real-world store can do all that. Increasingly, however, retailers are attempting to meet these new consumer expectations by bringing Web-style technologies into their stores. Many retailers now routinely use technologies ranging from touch-screen kiosks, mobile handheld shopping assistants, and customer-loyalty cards to self-scanning checkout systems and in store access to store inventory databases. Consider the supermarket chain Stop & Shop:

Green Retailing

Today's retailers are increasingly adopting environmentally sustainable practices. They are greening up their stores and operations, promoting more environmentally responsible products, launching programs to help customers be more responsible, and working with channel partners to reduce their environmental impact.

Global Expansion of Major Retailers

Retailers with unique formats and strong brand positioning are increasingly moving into other countries. Many are expanding internationally to escape mature and saturated home markets. Over the years, some giant U.S. retailers, such as McDonald's, have become globally prominent as a result of their marketing prowess. Others, such as Walmart, are rapidly establishing a global presence. Walmart, which now operates more than 4,000 stores in 14 countries abroad, sees exciting global potential. Its international division alone last year racked up sales of more than $100 billion, over 50 percent more than rival Target's total sales of $63 billion.

Wholesaling

Wholesaling includes all the activities involved in selling goods and services to those buying for resale or business use. Firms engaged primarily in wholesaling activities are called **wholesalers**.

Wholesalers buy mostly from producers and sell mostly to retailers, industrial consumers, and other wholesalers. As a result, many of the nation's largest and most important wholesalers are largely unknown to final consumers. For example, you may never have heard of Grainger, even though it's very well known and much valued by its more than 1.8 million business and institutional customers across North America, India, China, and Panama.

Why are wholesalers important to sellers? For example, why would a producer use wholesalers rather than selling directly to retailers or consumers? Simply put, wholesalers add value by performing one or more of the following channel functions:

• Selling and promoting: Wholesalers' sales forces help manufacturers reach many small customers at a low cost. The wholesaler has more contacts and is often more trusted by the buyer than the distant manufacturer.

• Buying and assortment building: Wholesalers can select items and build assortments needed by their customers, thereby saving much work.

• Bulk breaking: Wholesalers save their customers money by buying in carload lots and breaking bulk (breaking large lots into small quantities).

• Warehousing: Wholesalers hold inventories, thereby reducing the inventory costs and risks of suppliers and customers.

• Transportation: Wholesalers can provide quicker delivery to buyers because they are closer to buyers than are producers.

• Financing: Wholesalers finance their customers by giving credit, and they finance their suppliers by ordering early and paying bills on time.

• Risk bearing: Wholesalers absorb risk by taking title and bearing the cost of theft, damage, spoilage, and obsolescence.

• Market information: Wholesalers give information to suppliers and customers about competitors, new products, and price developments.
• Management services and advice: Wholesalers often help retailers train their salesclerks, improve store layouts and displays, and set up accounting and inventory control systems.

Wholesaling: Many of the nation's largest and most important wholesalers—like Grainger—are largely unknown to final consumers. But they are very well known and much valued by the business customers they serve.

Types of Wholesalers

Wholesalers fall into three major groups: merchant wholesalers, agents and brokers, and manufacturers' sales branches and offices. **Merchant wholesalers** are the largest single group of wholesalers, accounting for roughly 50 percent of all wholesaling. Merchant wholesalers include two broad types: full-service wholesalers and limited-service wholesalers. Full-service wholesalers provide a full set of services, whereas the various limited-service wholesalers offer fewer services to their suppliers and customers. The different types of limited-service wholesalers perform varied specialized functions in the distribution channel. Brokers and agents differ from merchant wholesalers in two ways: They do not take title to goods, and they perform only a few functions. Like merchant wholesalers, they generally specialize by product line or customer type. A**broker** brings buyers and sellers together and assists in negotiation. **Agents** represent buyers or sellers on a more permanent basis. Manufacturers' agents (also called manufacturers' representatives) are the most common type of agent wholesaler. The third major type of wholesaling is that done in **manufacturers' sales branches and offices** by sellers or buyers themselves rather than through independent wholesalers.

Wholesaler Marketing Decisions

Wholesalers now face growing competitive pressures, more-demanding customers, new technologies, and more direct-buying programs on the part of large industrial, institutional, and retail buyers. As a result, they have taken a fresh look at their marketing strategies. As with retailers, their marketing decisions include choices of segmentation and targeting, differentiation and positioning, and the marketing mix—product and service assortments, price, promotion, and distribution.

Segmentation, Targeting, Differentiation, and Positioning Decisions

Like retailers, wholesalers must segment and define their target markets and differentiate and position themselves effectively—they cannot serve everyone. They can choose a target group by size of customer (large retailers only), type of customer (convenience stores only), the need for service (customers who need credit), or other factors.Within the target group, they can identify the more profitable customers, design stronger offers, and build better relationships with them. They can propose automatic reordering systems, establish management-training and advisory systems, or even sponsor a voluntary chain. They can discourage less-profitable customers by requiring larger orders or adding service charges to smaller ones.

Marketing Mix Decisions

Like retailers, wholesalers must decide on product and service assortments, prices, promotion, and place. Wholesalers add customer value though the products and services they offer. They are often under great pressure to carry a full line and stock enough for immediate delivery. But this practice can damage profits. Wholesalers today are cutting down on the number of lines they carry, choosing to carry only the more-profitable ones. They are also rethinking which services count most in building strong customer relationships and which should be dropped or paid for by the customer. The key is to find the mix of services most valued by their target customers.

Price is also an important wholesaler decision. Wholesalers usually mark up the cost of goods by a standard percentage—say, 20 percent. Expenses may run 17 percent of the gross margin, leaving a profit margin of 3 percent. In grocery wholesaling, the average profit margin is often less than 2 percent. Wholesalers are trying new pricing approaches. The recent economic downturn put heavy pressure on wholesalers to cut their costs and prices. As their retail and industrial customers face sales and margin declines, these customers turn to wholesalers looking for lower prices. Wholesalers may cut their margins on some lines to keep important customers. They may ask suppliers for special price breaks, when they can turn them into an increase in the supplier’s sales.

Broker

A wholesaler who does not take title to goods and whose function is to bring buyers and sellers together and assist in negotiation.

Agent

A wholesaler who represents buyers or sellers on a relatively permanent basis, performs only a few functions, and does not take title to goods.

Manufacturers’ sales branches and offices

Wholesaling by sellers or buyers themselves rather than through independent wholesalers.

Merchant wholesaler

An independently owned wholesale business that takes title to the merchandise it handles.

Merchant wholesalers Independently owned businesses that take title to all merchandise handled. There are full-service wholesalers and limited-service wholesalers.

Full-service wholesalers Provide a full line of services: carrying stock, maintaining a sales force, offering credit, making deliveries, and providing management assistance. Full-service wholesalers include wholesale merchants and industrial distributors.

Wholesale merchants Sell primarily to retailers and provides a full range of services. General merchandise wholesalers carry several merchandise lines, whereas general line wholesalers carry one or two lines in great depth. Specialty wholesalers specialize in carrying only part of a line.

Industrial distributors Sell to manufacturers rather than to retailers. Provide several services, such as carrying stock, offering credit, and providing delivery. May carry a broad range of merchandise, a general line, or a specialty line.

Limited-service wholesalers Offer fewer services than full-service wholesalers. Limited-service wholesalers are of several types:
Cash-and-carry wholesalers
Carry a limited line of fast-moving goods and sell to small retailers for cash. Normally do not deliver.
Truck wholesalers (or truck jobbers)
Perform primarily a selling and delivery function. Carry a limited line of semiperishable merchandise (such as milk, bread, snack foods), which is sold for cash as deliveries are made to supermarkets, small groceries, hospitals, restaurants, factory cafeterias, and hotels.
Drop shippers Do not carry inventory or handle the product. On receiving an order, drop shippers select a manufacturer, who then ships the merchandise directly to the customer. Drop shippers operate in bulk industries, such as coal, lumber, and heavy equipment.
Rack jobbers Serve grocery and drug retailers, mostly in nonfood items. Rack jobbers send delivery trucks to stores, where the delivery people set up toys, paperbacks, hardware items, health and beauty aids, or other items. Rack jobbers price the goods, keep them fresh, set up point-of-purchase displays, and keep inventory records.
Producers' cooperatives Farmer-owned members that assemble farm produce for sale in local markets. Producers' cooperatives often attempt to improve product quality and promote a co-op brand name, such as Sun-Maid raisins, Sunkist oranges, or Diamond walnuts.
Mail-order or Web wholesalers
Send catalogs to or maintain Web sites for retail, industrial, and institutional customers featuring jewelry, cosmetics, specialty foods, and other small items. Its primary customers are businesses in small outlying areas.

REVIEW QUESTIONS

1. Discuss how retailers and wholesalers add value to the marketing system. Explain why marketers are embracing the concept of shopper marketing.

2. Discuss the factors used to classify retail establishments and list the types within each classification.

3. List and briefly discuss the trends impacting the future of retailing.

4. Suppose you are a manufacturer's agent for three lines of complementary women's apparel. Discuss the types of marketing mix decisions you will make.

5. Discuss the different organizational approaches for retailers and provide an example of each.

6. What is retail convergence? Has it helped or harmed small retailers?

FURTHER READINGS

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UNIT-14 COMMUNICATING CUSTOMERVALUE: INTEGRATED MARKETINGCOMMUNICATIONS STRATEGY

CONTENTS

INTRODUCTION

Building good customer relationships calls for more than just developing a good product, pricing it attractively, and making it available to target customers. Companies must also communicate their value propositions to customers, and what they communicate should not be left to chance. All communications must be planned and blended into carefully integrated programs. Just as good communication is important in building and maintaining any kind of relationship, it is a crucial element in a company's efforts to build profitable customer relationships.

The Promotion Mix

A company's total **promotion mix**—also called its **marketing communications mix**— consists of the specific blend of advertising, public relations, personal selling, sales promotion, and direct-marketing tools that the company uses to persuasively communicate customer value and build customer relationships. The five major promotion tools are defined
as follows:

• Advertising: Any paid form of nonpersonal presentation and promotion of ideas, goods, or services by an identified sponsor.

• Sales promotion: Short-term incentives to encourage the purchase or sale of a product or service.

• Personal selling: Personal presentation by the firm's sales force for the purpose of making sales and building customer relationships.

• Public relations: Building good relations with the company's various publics by obtaining favorable publicity, building up a good corporate image, and handling or heading off unfavorable rumors, stories, and events.

• Direct marketing: Direct connections with carefully targeted individual consumers to both obtain an immediate response and cultivate lasting customer relationships.

Comment Integrated Marketing Communications

In past decades, marketers perfected the art of mass marketing: selling highly standardized products to masses of customers. In the process, they developed effective mass-media communications techniques to support these strategies. Large companies now routinely invest millions or even billions of dollars in television, magazine, or other mass-media advertising, reaching tens of millions of customers with a single ad. Today, however, marketing managers face some new marketing communications realities. Perhaps no other area of marketing is changing so profoundly as marketing communications, creating both exciting and anxious times for marketing communicators.

The New Marketing Communications Model

Several major factors are changing the face of today's marketing communications. First, consumers are changing. In this digital, wireless age, they are better informed and more communications empowered. Rather than relying on marketer-supplied information, they can use the Internet and other technologies to find information on their own. They can connect more easily with other consumers to exchange brand-related information or even create their own marketing messages. Second, marketing strategies are changing. As mass markets have fragmented, marketers are shifting away from mass marketing. More and more, they are developing focused marketing programs designed to build closer relationships with customers in more narrowly defined micromarkets.

Finally, sweeping advances in communications technology are causing remarkable changes in the ways in which companies and customers communicate with each other. The digital age has spawned a host of new information and communication tools—from smartphones and iPods to satellite and cable television systems to the many faces of the Internet (e-mail, social networks, blogs, brand Web sites, and so much more). These explosive developments have had a dramatic impact on marketing communications. Just as mass marketing once gave rise to a new generation of mass-media communications, the new digital media have given birth to a new marketing communications model.

Although television, magazines, newspapers, and other mass media remain very important, their dominance is declining. In their place, advertisers are now adding a broad selection of more-specialized and highly targeted media to reach smaller customer segments with more-personalized, interactive messages. The new media range from specialty cable television channels and made-for-the-Web videos to Internet catalogs, e-mail, blogs, cell phone content, and online social networks. In all, companies are doing less broadcasting and more narrowcasting.

Direct marketing

Direct connections with carefully targeted individual consumers to both obtain an immediate response and cultivate lasting customer relationships.

Integrated marketing communications (IMC)

Today, more companies are adopting the concept of **integrated marketing communications (IMC)**. Under this concept, the company carefully integrates its many communications channels to deliver a clear, consistent, and compelling message about the organization and its brands.

Integrated marketing communications calls for recognizing all touch points where the customer may encounter the company and its brands. Each brand contact will deliver a message—whether good, bad, or indifferent. The company's goal should be to deliver a consistent and positive message to each contact. IMC leads to a total marketing communications strategy aimed at building strong customer relationships by showing how the company and its products can help customers solve their problems.

Integrated marketing communications ties together all of the company's messages and images. Its television and print ads have the same message, look, and feel as its e-mail and personal selling communications. And its PR materials project the same image as its Web site or social network presence. Often, different media play unique roles in attracting, informing, and persuading consumers; these roles must be carefully coordinated under the overall marketing communications plan. A great example of the power of a well-integrated marketing communications effort is the "Häagen-Dazs loves honey bees" campaign discussed at the start of this unit. Another is Burger King's now-classic, award-winning, Whopper Freakout campaign:

• Sender: The party sending the message to another party—here, McDonald's.

• Encoding: The process of putting thought into symbolic form—for example, McDonald's ad agency assembles words, sounds, and illustrations into a TV advertisement that will convey the intended message.

• Message: The set of symbols that the sender transmits—the actual McDonald's ad.

• Media: The communication channels through which the message moves from the sender to the receiver—in this case, television and the specific television programs that McDonald's selects.

• Decoding: The process by which the receiver assigns meaning to the symbols encoded by the sender—a consumer watches the McDonald's commercial and interprets the words and images it contains.

• Receiver: The party receiving the message sent by another party—the customer who watches the McDonald's ad.

• Response: The reactions of the receiver after being exposed to the message—any of hundreds of possible responses, such as the consumer likes McDonald's better, is more likely to eat at McDonald's next time, hums the "i'm lovin' it" jingle, or does nothing.

• Feedback: The part of the receiver's response communicated back to the sender—McDonald's research shows that consumers are either struck by and remember the ad or they write or call McDonald's, praising or criticizing the ad or its products.

• Noise: The unplanned static or distortion during the communication process, which results in the receiver getting a different message than the one the sender sent—the consumer is distracted while watching the commercial and misses its key points.

For a message to be effective, the sender's encoding process must mesh with the receiver's decoding process. The best messages consist of words and other symbols that are familiar to the receiver. The more the sender's field of experience overlaps with that of the receiver, the more effective the message is likely to be. Marketing communicators may not always share their customer's field of experience. For example, an advertising copywriter from one socioeconomic level might create ads for customers from another level—say, wealthy business owners. However, to communicate effectively, the marketing communicator must understand the customer's field of experience. This model points out several key factors in good communication. Senders need to know what audiences they wish to reach and what responses they want. They must be good at encoding messages that take into account how the target audience decodes them. They must send messages through media that reach target audiences, and they must develop feedback channels so that they can assess an audience's response to the message.

Steps in Developing Effective Marketing Communication

We now examine the steps in developing an effective integrated communications and promotion program. Marketers must do the following: Identify the target audience, determine the communication objectives, design a message, choose the media through which to send the message, select the message source, and collect feedback. Identifying the Target Audience A marketing communicator starts with a clear target audience in mind. The audience may be current users or potential buyers, those who make the buying decision or those who influence it. The audience may be individuals, groups, special publics, or the general public. The target audience will heavily affect the communicator's decisions on what will be said, how it will be said, when it will be said, where it will be said, and who will say it.

Buyer-readiness stages

The stages consumers normally pass through on their way to a purchase, including awareness, knowledge, liking, preference, conviction, and, finally, the actual purchase.

Message Content

The marketer has to figure out an appeal or theme that will produce the desired response. There are three types of appeals: rational, emotional, and moral. Rational appeals relate to the audience's self-interest. They show that the product will produce the desired benefits.

Message Structure

Marketers must also decide how to handle three message structure issues. The first is whether to draw a conclusion or leave it to the audience. Research suggests that, in many cases, rather than drawing a conclusion, the advertiser is better off asking questions and letting buyers come to their own conclusions.

The second message structure issue is whether to present the strongest arguments first or last. Presenting them first gets strong attention but may lead to an anticlimactic ending. The third message structure issue is whether to present a one-sided argument (mentioning only the product's strengths) or a two-sided argument (touting the product's strengths while also admitting its shortcomings). Usually, a one-sided argument is more effective in sales presentations—except when audiences are highly educated or likely to hear opposing claims or when the communicator has a negative association to overcome. In this spirit, Heinz ran the message "Heinz Ketchup is slow good," and Listerine ran the message "Listerine tastes bad twice a day." In such cases, two-sided messages can enhance an advertiser's credibility and make buyers more resistant to competitor attacks.

Message Format

The marketing communicator also needs a strong format for the message. In a print ad, the communicator has to decide on the headline, copy, illustration, and colors. To attract attention, advertisers can use novelty and contrast; eye-catching pictures and headlines; distinctive formats; message size and position; and color, shape, and movement. If the message is to be carried over the radio, the communicator has to choose words, sounds, and voices. The "sound" of an ad promoting banking services should be different from one promoting an iPod. If the message is to be carried on television or in person, then all these elements plus body language must be planned.

Choosing Media

The communicator must now select the channels of communication. There are two broad types of communication channels: personal and non personal.

Personal Communication Channels

In **personal communication channels**, two or more people communicate directly with each other. They might communicate face to face, on the phone, via mail or e-mail, or even through an Internet "chat." Personal communication channels are effective because they allow for personal addressing and feedback.

Some personal communication channels are controlled directly by the company. For example, company salespeople contact business buyers. But other personal communications about the product may reach buyers through channels not directly controlled by the company. These channels might include independent experts—consumer advocates, online buying guides, and others—making statements to buyers. Or they might be neighbors, friends, family members, and associates talking to target buyers. This last channel, **word of- mouth influence**, has considerable effect in many product areas.

Buzz marketing involves cultivating opinion leaders and getting them to spread information about a product or service to others in their communities.

Nonpersonal communication channels are media that carry messages without personal contact or feedback. They include major media, atmospheres, and events. Major media include print media (newspapers, magazines, direct-mail), broadcast media (television, radio), display media (billboards, signs, posters), and online media (e-mail, company Web sites, and online social and

Personal communication channels

Channels through which two or more people communicate directly with each other, including face to face, on the phone, via mail or e-mail, or even through an Internet "chat."

Word-of-mouth influence

Personal communications about a product between target buyers and neighbors, friends, family members, and associates.

Selecting the Message Source

In either personal or nonpersonal communication, the message's impact also depends on how the target audience views the communicator. Messages delivered by highly credible sources are more persuasive. Thus, many food companies promote to doctors, dentists, and other health-care providers to motivate these professionals to recommend specific food products to their patients. And marketers hire celebrity endorsers—well-known athletes, actors, musicians, and even cartoon characters— to deliver their messages.

Collecting Feedback

After sending the message, the communicator must research its effect on the target audience. This involves asking the target audience members whether they remember the message, how many times they saw it, what points they recall, how they felt about the message, and their past and present attitudes toward the product and company. The communicator would also like to measure behavior resulting from the message—how many people bought the product, talked to others about it, or visited the store.

Setting the Total Promotion Budget and Mix

We have looked at the steps in planning and sending communications to a target audience. But how does the company determine its total promotion budget and the division among the major promotional tools to create the promotion mix? By what process does it blend the tools to create integrated marketing communications? We now look at these questions.

Setting the Total Promotion Budget

One of the hardest marketing decisions facing a company is how much to spend on promotion. John Wanamaker, the department store magnate, once said, "I know that half of my advertising is wasted, but I don't know which half. I spent $2 million for advertising, and I don't know if that is half enough or twice too much." Thus, it is not surprising that industries and companies vary widely in how much they spend on promotion. Promotion spending may be 10–12 percent of sales for consumer packaged goods, 14 percent for cosmetics,

Affordable Method

Some companies use the **affordable method**: They set the promotion budget at the level they think the company can afford. Small businesses often use this method, reasoning that the company cannot spend more on advertising than it has. They start with total revenues, deduct operating expenses and capital outlays, and then devote some portion of the remaining funds to advertising.

Unfortunately, this method of setting budgets completely ignores the effects of promotion on sales. It tends to place promotion last among spending priorities, even in situations in which advertising is critical to the firm's success. It leads to an uncertain annual promotion budget, which makes long-range market planning difficult. Although the affordable method can result in overspending on advertising, it more often results in underspending.

Percentage-of-Sales Method

Other companies use the **percentage-of-sales method**, setting their promotion budget at a certain percentage of current or forecasted sales. Or they budget a percentage of the unit sales price. The percentage-of-sales method is simple to use and helps management think about the relationships between promotion spending, selling price, and profit per unit. Despite these claimed advantages, however, the percentage-of-sales method has little to justify it. It wrongly views sales as the cause of promotion rather than as the result. Although studies have found a positive correlation between promotional spending and brand strength, this relationship often turns out to be effect and cause, not cause and effect. Stronger brands with higher sales can afford the biggest ad budgets. Thus, the percentage-of-sales budget is based on the availability of funds rather than on opportunities. It may prevent the increased spending sometimes needed to turn around falling sales. Because the budget varies with year-to-year sales, long-range planning is difficult.Finally, the method does not provide any basis for choosing a specific percentage, except what has been done in the past or what competitors are doing.

Competitive-Parity Method

Still other companies use the **competitive-parity method**, setting their promotion budgets to match competitors' outlays. They monitor competitors' advertising or get industry promotion spending estimates from publications or trade associations and then set their budgets based on the industry average. Two arguments support this method. First, competitors' budgets represent the collective wisdom of the industry. Second, spending what competitors spend helps prevent promotion wars. Unfortunately, neither argument is valid. There are no grounds for believing that the competition has a better idea of what a company should be spending on promotion than does the company itself. Companies differ greatly, and each has its own special promotion needs. Finally, there is no evidence that budgets based on competitive parity prevent promotion wars.

Objective-and-Task Method

The most logical budget-setting method is the **objective-and-task method**, whereby the company sets its promotion budget based on what it wants to accomplish with promotion. This budgeting method entails (1) defining specific promotion objectives, (2) determining the tasks needed to achieve these objectives, and (3) estimating the costs of performing these tasks. The sum of these costs is the proposed promotion budget.

The Nature of Each Promotion Tool

Each promotion tool has unique characteristics and costs. Marketers must understand these characteristics in shaping the promotion mix.

Advertising. Advertising can reach masses of geographically dispersed buyers at a low cost per exposure, and it enables the seller to repeat a message many times. For example, television advertising can reach huge audiences. An estimated 106 million Americans watched the most recent Super Bowl, about 41 million people watched at least part of the last Academy Awards broadcast, and 30 million fans tuned in for the debut episode of the ninth season of American Idol. For companies that want to reach a mass audience, TV is the place to be.16 Beyond its reach, large-scale advertising says something positive about the seller's size, popularity, and success. Because of advertising's public nature, consumers tend to view advertised products as more legitimate. Advertising is also very expressive; it allows the company to dramatize its products through the artful use of visuals, print, sound, and color. On the one hand, advertising can be used to build up a long-term image for a product (such as Coca-Cola ads). On the other hand, advertising can trigger quick sales (as when Kohl's advertises weekend specials).

Advertising also has some shortcomings. Although it reaches many people quickly, advertising is impersonal and cannot be as directly persuasive as can company salespeople. For the most part, advertising can carry on only a one-way communication with an audience, and the audience does not feel that it has to pay attention or respond. In addition, advertising can be very costly. Although some advertising forms, such as newspaper and radio advertising, can be done on smaller budgets, other forms, such as network TV advertising, require very large budgets.

Personal Selling. Personal selling is the most effective tool at certain stages of the buying process, particularly in building up buyers' preferences, convictions, and actions. It involves personal interaction between two or more people, so each person can observe the other's needs and characteristics and make quick adjustments. Personal selling also allows all kinds of customer relationships to spring up, ranging from matter-of-fact selling relationships to personal friendships. An effective salesperson keeps the customer's interests at heart to **Objective-and-task method**

Developing the promotion budget by

(1) Defining specific promotion objectives,

(2) Determining the tasks needed to achieve these objectives, and

(3) Estimating the costs of performing these tasks.

The sum of these costs is the proposed promotion budget.

Sales Promotion. Sales promotion includes a wide assortment of tools—coupons, contests, cents-off deals, premiums, and others—all of which have many unique qualities. They attract consumer attention, offer strong incentives to purchase, and can be used to dramatize product offers and boost sagging sales. Sales promotions invite and reward quick response. Whereas advertising says, "Buy our product," sales promotion says, "Buy it now." Sales promotion effects are often short lived, however, and often are not as effective as advertising or personal selling in building long-run brand preference and customer relationships.

Public Relations. PR is very believable—news stories, features, sponsorships, and events seem more real and believable to readers than ads do. PR can also reach many prospects who avoid salespeople and advertisements—the message gets to buyers as "news" rather than as a sales-directed communication. And, as with advertising, PR can dramatize a company or product. Marketers tend to underuse PR or use it as an afterthought. Yet a well-thought-out PR campaign used with other promotion mix elements can be very effective and economical.

Direct Marketing. Although there are many forms of direct marketing—direct mail and catalogs, online marketing, telephone marketing, and others—they all share four distinctive characteristics. Direct marketing is less public: The message is normally directed to a specific person. Direct marketing is immediate and customized: Messages can be prepared very quickly and can be tailored to appeal to specific consumers. Finally, direct marketing is interactive: It allows a dialogue between the marketing team and the consumer, and messages can be altered depending on the consumer's response. Thus, direct marketing is well suited to highly targeted marketing efforts and building one-to-one customer relationships.

Promotion Mix Strategies

Marketers can choose from two basic promotion mix strategies: push promotion or pull promotion. The relative emphasis given to the specific promotion tools differs for push and pull strategies. A **push strategy** involves "pushing" the product through marketing channels to final consumers. The producer directs its marketing activities (primarily personal selling and trade promotion) toward channel members to induce them to carry the product and promote it to final consumers. For example, John Deere does very little promoting of its lawn mowers, garden tractors, and other residential consumer products to final consumers. Instead, John Deere's sales force works with Lowe's, Home Depot, independent dealers, and other channel members, who in turn push John Deere products to final consumers.

Using a **pull strategy**, the producer directs its marketing activities (primarily advertising and consumer promotion) toward final consumers to induce them to buy the product. For example, Unilever promotes its Axe grooming products directly to its young male target market using TV and print ads, a brand Web site, its YouTube channel, and other channels.

If the pull strategy is effective, consumers will then demand the brand from retailers, such as CVS, Walgreens, or Walmart, who will in turn demand it from Unilever. Thus, under a pull strategy, consumer demand "pulls" the product through the channels.

Personal Selling

A company's salespeople must follow the rules of "fair competition." Most states have enacted deceptive sales acts that spell out what is not allowed. For example, salespeople may not lie to consumers or mislead them about the advantages of buying a particular product. To avoid bait-and-switch practices, salespeople's statements must match advertising claims.

Different rules apply to consumers who are called on at home or who buy at a location that is not the seller's permanent place of business versus those who go to a store in search of a product. Because people who are called on may be taken by surprise and may be especially vulnerable to high-pressure selling techniques, the Federal Trade Commission (FTC) has adopted a three-day cooling-off rule to give special protection to customers who are not seeking products. Under this rule, customers who agree in their own homes, workplace, dormitory, or facilities rented by the seller on a temporary basis—such as hotel rooms, convention centers, and restaurants—to buy something costing more than $25 have 72 hours in which to cancel a contract or return merchandise and get their money back—no questions asked.

REVIEW QUESTIONS

1. Describe The Promotion Mix. Explain Integrated Marketing Communications.
2. Describe The New Marketing Communications Model
3. What do you mean by direct marketing?
4. Describe Integrated marketing communications.
5. What are the Steps in Developing Effective Marketing Communication
6. Personal Communication Channels
7. Percentage-of-Sales Method
8. Promotion Mix Strategies

FURTHER READINGS

1. Marketing management-S.Jaychandran
2. Marketing management and strategy-Peter dayal, Philip stern
3. Marketing management-Dhawan and sundaram
4. Marketing management-s.h.h. kajami
5. Marketing management-montgue brown

IMPORTANT NOTES

UNIT-15 ADVERTISING AND PUBLIC RELATIONS

CONTENTS

INTRODUCTION

Advertising can be traced back to the very beginnings of recorded history. Archaeologists working in countries around the Mediterranean Sea have dug up signs announcing various events and offers. The Romans painted walls to announce gladiator fights, and the Phoenicians painted pictures on large rocks to promote their wares along parade routes. During the golden age in Greece, town criers announced the sale of cattle, crafted items, and even cosmetics. An early "singing commercial" went as follows: "For eyes that are shining, for cheeks like the dawn / For beauty that lasts after girlhood is gone / For prices in reason, the woman who knows / Will buy her cosmetics from Aesclyptos."

Modern advertising, however, is a far cry from these early efforts. U.S. advertisers now run up an estimated annual bill of more than $148 billion on measured advertising media; worldwide ad spending exceeds an estimated $450 billion. P&G, the world's largest advertiser, last year spent $4.2 billion on U.S. advertising and $9.7 billion worldwide. Although advertising is used mostly by business firms, a wide range of not-for-profit organizations, professionals, and social agencies also use advertising to promote their causes to various target publics. In fact, the thirty-third largest advertising spender is a not for- profit organization—the U.S. government. For example, the federal government recently spent some $300 million on an advertising campaign to motivate Americans to take part in the 2010 Census.3 Advertising is a good way to inform and persuade, whether the purpose is to sell Coca-Cola worldwide or get people in a developing nation to use birth control.

Major Advertising Decisions

Informative Advertising

Communicating customer value Suggesting new uses for a product Building a brand and company image Informing the market of a price change Telling the market about a new product Describing available services and support Explaining how a product works Correcting false impressions

Persuasive Advertising

Building brand preference Persuading customers to purchase now encouraging switching to a brand persuading customers to receive a sales call Changing customer perceptions of product value Convincing customers to tell others about the brand

Reminder Advertising

Maintaining customer relationships Reminding consumers where to buy the product Reminding consumers that the product may be needed in the near future Keeping the brand in a customer's mind during off-seasons Marketing management must make four important decisions when developing an advertising program: setting advertising objectives, setting the advertising budget, developing advertising strategy (message decisions and media decisions), and evaluating advertising campaigns.

Setting Advertising Objectives

The first step is to set advertising objectives. These objectives should be based on past decisions about the target market, positioning, and the marketing mix, which define the job that advertising must do in the total marketing program. The overall advertising objective is to help build customer relationships by communicating customer value. Here, we discuss specific advertising objectives.

An **advertising objective** is a specific communication task to be accomplished with a specific target audience during a specific period of time. Advertising objectives can be classified by their primary purpose—to inform, persuade, or remind. Informative advertising is used heavily when introducing a new-product category. In this case, the objective is to build primary demand. Thus, early producers of DVD players first had to inform consumers of the image quality and convenience benefits of the new product. The overall advertising goal is to help build customer relationships by communicating customer value.

Persuasive advertising becomes more important as competition increases. Here, the company's objective is to build selective demand. For example, once DVD players became established, Sony began trying to persuade consumers that its brand offered the best quality for their money. Some persuasive advertising has become comparative advertising (or attack advertising), in which a company directly or indirectly compares its brand with one or more other brands. You see examples of comparative advertising in almost every product category, ranging from sports drinks, coffee, and soup to computers, car rentals, and credit cards.

Developing Advertising Strategy

Advertising strategy consists of two major elements: creating advertising messages and selecting advertising media. In the past, companies often viewed media planning as secondary to the message-creation process. The creative department first created good advertisements, and then the media department selected and purchased the best media for carrying those advertisements to desired target audiences. This often caused friction between creatives and media planners.

Advertising strategy

The strategy by which the company accomplishes its advertising objectives. It consists of two major elements: creating advertising messages and selecting advertising media.

Creating the Advertising Message

No matter how big the budget, advertising can succeed only if advertisements gain attention and communicate well. Good advertising messages are especially important in today's costly and cluttered advertising environment. In 1950, the average U.S. household received only three network television channels and a handful of major national magazines. Today, the average household receives more than 118 channels, and consumers have more than 20,000 magazines from which to choose.7 Add in the countless radio stations and a continuous barrage of catalogs, direct mail, e-mail and online ads, and out-of-home media, and consumers are being bombarded with ads at home, work, and all points in between. As a result, consumers are exposed to as many as 3,000 to 5,000 commercial messages every day.

Breaking through the Clutter. If all this advertising clutter bothers some consumers, it also causes huge headaches for advertisers. Take the situation facing network television advertisers. They pay an average of $302,000 to make a single 30-second commercial. Then, each time they show it, they pay an average of $122,000 for 30 seconds of advertising time during a popular prime-time program. They pay even more if it's an especially popular program, such as American Idol ($642,000), Sunday Night Football ($340,000), Grey's Anatomy ($240,000), Two and a Half Men ($227,000), or a mega-event such as the Super Bowl (nearly $3 million per 30 seconds!).9

Merging Advertising and Entertainment. To break through the clutter, many marketers are now subscribing to a new merging of advertising and entertainment, dubbed "**Madison & Vine**." You've probably heard of Madison Avenue. It's the New York City street that houses the headquarters of many of the nation's largest advertising agencies. You may also have heard of Hollywood & Vine, the intersection of Hollywood Avenue and Vine Street in Hollywood, California, long the symbolic heart of the U.S. entertainment industry. Now, Madison Avenue and Hollywood & Vine are coming together to form a new intersection— Madison & Vine—that represents the merging of advertising and entertainment in an effort to create new avenues for reaching consumers with more engaging messages. This merging of advertising and entertainment takes one of two forms: advertainment or branded entertainment. The aim of advertainment is to make ads themselves so entertaining, or so useful, that people want to watch them. There's no chance that you'd watch ads on purpose, you say? Think again. For example, the Super Bowl has become an annual advertainment showcase. Tens of millions of people tune in to the Super Bowl each year, as much to watch the entertaining ads as to see the game. In fact, DVR systems can actually improve viewership of a really good ad. For example, most Super Bowl ads last year were viewed more in DVR households than non-DVR households.

Madison & Vine
A term that has come to represent the merging of advertising and entertainment in an effort to break through the clutter and create new avenues for reaching consumers with more engaging messages.

Message Strategy. The first step in creating effective advertising messages is to plan a message strategy—the general message that will be communicated to consumers. The purpose of advertising is to get consumers to think about or react to the product or company in a certain way. People will react only if they believe they will benefit from doing so. Thus, developing an effective message strategy begins with identifying customer benefits that can be used as advertising appeals.

Ideally, the message strategy will follow directly from the company's broader positioning and customer value strategies. Message strategy statements tend to be plain, straightforward outlines of benefits and positioning points that the advertiser wants to stress.

Message Execution. The advertiser now must turn the big idea into an actual ad execution that will capture the target market's attention and interest. The creative team must find the best approach, style, tone, words, and format for executing the message. The message can be presented in various **execution styles**, such as the following:

• Slice of life: This style shows one or more "typical" people using the product in a normal setting. For example, a Silk soy milk "Rise and Shine" ad shows a young professional starting the day with a healthier breakfast and high hopes.

• Lifestyle: This style shows how a product fits in with a particular lifestyle. For example, an ad for Athleta active wear shows a woman in a complex yoga pose and states "If your body is your temple, build it one piece at a time."

• Fantasy: This style creates a fantasy around the product or its use. For example, a Travelers Insurance ad features a gentleman carrying a giant red umbrella (the company's brand symbol). The man helps people by using the umbrella to protect them from the rain, sail them across a flooded river, and fly home. The ad closes with "Travelers Insurance. There when you need it."

• Mood or image: This style builds a mood or image around the product or service, such as beauty, love, intrigue, or serenity. Few claims are made about the product or service except through suggestion. For example, a Nestlé Toll House ad shows a daughter hugging her mother after surprising her with a weekend home from college. "So I baked her the cookies she's loved since she was little."

• Musical: This style shows people or cartoon characters singing about the product. For example, FreeCreditReport.com tells its story exclusively through a set of popular singing commercials such as "Dreamgirl" and "Pirate." Similarly, Oscar Mayer's long-running ads show children singing its now classic "I wish I were an Oscar Mayer wiener . . ." jingle.

• Personality symbol: This style creates a character that represents the product. The character might be animated (Mr. Clean, Tony the Tiger, the GEICO Gecko, or the Zappos Zappets) or real (Ol' Lonely the

Maytag repairman, the E*TRADE babies, Ronald McDonald, or the Aflac duck).

• Technical expertise: This style shows the company's expertise in making the product. Thus, natural foods maker Kashi shows its buyers carefully selecting ingredients for its products, and Jim Koch of the Boston Beer Company tells about his many years of experience in brewing Samuel Adams beer.

• Scientific evidence: This style presents survey or scientific evidence that the brand is better or better liked than one or more other brands. For years, Crest toothpaste has used scientific evidence to convince buyers that Crest is better than other brands at fighting cavities.

• Testimonial evidence or endorsement: This style features a highly believable or likable source endorsing the product. It could be ordinary people saying how much they like a given product. For example, Subway uses spokesman Jared, a customer who lost 245 pounds on a diet of Subway sandwiches. Or it might be a celebrity presenting the product. Olympic gold medal swimmer Michael Phelps also speaks for Subway.

Selecting Advertising Media

The major steps in **advertising media** selection are (1) determining on reach, frequency, and impact; (2) choosing among major media types; (3) selecting specific media vehicles; and (4) choosing media timing.

Determining Reach, Frequency, and Impact. To select media, the advertiser must determine the reach and frequency needed to achieve the advertising objectives. Reach is a measure of the percentage of people in the target market who are exposed to the ad campaign during a given period of time. For example, the advertiser might try to reach 70 percent of the target market during the first three months of the campaign. Frequency is a measure of how many times the average person in the target market is exposed to the message. For example, the advertiser might want an average exposure frequency of three. But advertisers want to do more than just reach a given number of consumers a specific number of times. The advertiser also must determine the desired media impact—the qualitative value of message exposure through a given medium. For example, the same message in one magazine (say, Newsweek) may be more believable than in another (say, the National Enquirer). For products that need to be demonstrated, messages on television may have more impact than messages on radio because television uses sight and sound. Products for which consumers provide input on design or features might be better promoted at an interactive Web site than in a direct mailing.

Medium Advantages Limitations

Television Good mass-marketing coverage; low cost per exposure; combines sight, sound, and motion; appealing to the senses High absolute costs; high clutter; fleeting exposure; less

audience selectivity Newspapers Flexibility; timeliness; good local market coverage; broad acceptability; high believability Short life; poor reproduction quality; small pass-along audience The Internet High selectivity; low cost; immediacy; interactive capabilities Potentially low impact; the audience controls exposure Direct mail High audience selectivity; flexibility; no ad competition within the same medium;

allows personalization Relatively high cost per exposure; "junk mail" image Magazines High geographic and demographic selectivity; credibility and prestige; high-quality reproduction; long life and good pass-along readership

Choosing Among Major Media Types. Media planners have to know the reach, frequency, and impact of each major media type. The major media types are television, newspapers, the Internet, direct mail, magazines, radio, and outdoor. Advertisers can also choose from a wide array of new digital media, such as cell phones and other digital devices, which reach consumers directly. Each medium has its advantages and its limitations. Media planners consider many factors when making their media choices. They want to choose media that will effectively and efficiently present the advertising message to target customers. Thus, they must consider each medium's impact, message effectiveness, and cost.

Deciding on Media Timing. An advertiser must also decide howto schedule the advertising over the course of a year. Suppose sales of a product peak in December and drop in March (for winter sports gear, for instance). The firm can vary its advertising to follow the seasonal pattern, oppose the seasonal pattern, or be the same all year. Most firms do some seasonal advertising. For example, Mars currently runs M&Ms special ads for almost every holiday and "season," from Easter, Fourth of July, and Halloween to the Super Bowl season and the Oscar season. The Picture People, the national chain of portrait studios, advertises more heavily before major holidays, such as Christmas, Easter, Valentine's day, and Halloween.

Other Advertising Considerations

In developing advertising strategies and programs, the company must address two additional questions. First, how will the company organize its advertising function—who will perform which advertising tasks? Second, how will the company adapt its advertising strategies and programs to the complexities of international markets?

Organizing for Advertising

Different companies organize in different ways to handle advertising. In small companies, advertising might be handled by someone in the sales department. Large companies have advertising departments whose job it is to set the advertising budget, work with the ad agency, and handle other advertising not done by the agency. Most large companies use outside advertising agencies because they offer several advantages.

How does an **advertising agency** work? Advertising agencies originated in the midto late-1800s by salespeople and brokers who worked for the media and received a commission for selling advertising space to companies. As time passed, the salespeople began to help customers prepare their ads. Eventually, they formed agencies and grew closer to the advertisers than to the media.

Today's agencies employ specialists who can often perform advertising tasks better than the company's own staff can. Agencies also bring an outside point of view to solving the company's problems, along with lots of experience from working with different clients and situations. So, today, even companies with strong advertising departments of their own use advertising agencies.

International Advertising Decisions

International advertisers face many complexities not encountered by domestic advertisers. The most basic issue concerns the degree to which global advertising should be adapted to the unique characteristics of various country markets. Some large advertisers

Public Relations

Another major mass-promotion tool is **public relations (PR)**—building good relations with the company's various publics by obtaining favorable publicity, building up a good corporate image, and handling or heading off unfavorable rumors, stories, and events. PR departments may perform any or all of the following functions:

• Press relations or press agency: Creating and placing newsworthy information in the newsmedia to attract attention to a person, product, or service.

• Product publicity: Publicizing specific products.

• Public affairs: Building and maintaining national or local community relationships.

• Lobbying: Building and maintaining relationships with legislators and government officials to influence legislation and regulation.

• Investor relations: Maintaining relationships with shareholders and others in the financial community.

• Development:Working with donors or members of nonprofit organizations to gain financial or volunteer support.

Public relations is used to promote products, people, places, ideas, activities, organizations, and even nations. Companies use PR to build good relations with consumers, investors, the media, and their communities. Trade associations have used PR to rebuild interest in declining commodities, such as eggs, apples, potatoes, and milk.

Define the role of advertising in the promotion mix.

Advertising—the use of paid media by a seller to inform, persuade, and remind buyers about its products or its organization— is an important promotion tool for communicating the value that marketers create for their customers. American marketers spend more than $163 billion each year on advertising, and worldwide spending exceeds $450 billion. Advertising takes many forms and has many uses. Although advertising is used mostly by business firms, a wide range of not-for-profit organizations, professionals, and social agencies also employ advertising to promote their causes to various target publics. Public relations—gaining favourable publicity and creating a favorable company image—is the least used of the major promotion tools, although it has great potential for building consumer awareness and preference.

REVIEW QUESTIONS

1. List the primary types of advertising objectives and discuss the kinds of advertising used to achieve each type.
2. Why is it important that the advertising media and creative departments work closely together?

3. Name and describe five of the many execution styles advertisers use when developing ads. For each execution style, describe a television commercial using that style.
4. How should a company measure the effectiveness of its advertising?
5. What are the role and functions of public relations within an organization?
6. Discuss the tools used by public relations professionals.

FURTHER READINGS

1. Marketing management-S.Jaychandran
2. Marketing managemen tand strategy-Peter dayal, Philip stern
3. Marketing management-Dhawan and sundaram
4. Marketing management-s.h.h. kajami
5. Marketing management-montgue brown

IMPORTANT NOTES

UNIT-16 PERSONAL SELLING AND SALES PROMOTION

CONTENTS

Personal Selling

Robert Louis Stevenson once noted, “Everyone lives by selling something.” Companies around the world use sales forces to sell products and services to business customers and final consumers. But sales forces are also found in many other kinds of organizations. For example, colleges use recruiters to attract new students, and churches use membership committees to attract new members. Museums and fine arts organizations use fund-raisers to contact donors and raise money. Even governments use sales forces. The U.S. Postal Service, for instance, uses a sales force to sell Express Mail and other services to corporate customers. In the first part of this unit, we examine personal selling’s role in the organization, sales force management decisions, and the personal selling process.

The Nature of Personal Selling

Personal selling is one of the oldest professions in the world. The people who do the selling

go by many names, including salespeople, sales representatives, agents, district managers, account executives, sales consultants, and sales engineers. People hold many stereotypes of salespeople—including some unfavorable ones. “Salesman” may bring to mind the image of Arthur Miller’s pitiable Willy Loman in Death of a Salesman or Dwight Schrute, the opinionated Dunder Mifflin paper salesman from the TV show The Office, who lacks both common sense and social skills. And then there are the real-life “yell-and-sell” “pitchmen,” who hawk everything from the ShamWow to the Swivel Sweeper and Point ’n Paint in TV infomercials. However, the majority of salespeople are a far cry from these unfortunate stereotypes.

Linking the Company with Its Customers

The sales force serves as a critical link between a company and its customers. In many cases, salespeople serve two masters: the seller and the buyer. First, they represent the company to customers. They find and develop new customers and communicate information

Coordinating Marketing and Sales

Ideally, the sales force and other marketing functions (marketing planners, brand managers, and researchers) should work together closely to jointly create value for customers. Unfortunately, however, some companies still treat sales and marketing as separate functions. When this happens, the separate sales and marketing groups may not get along well. When things go wrong, marketers blame the sales force for its poor execution of what they see as an otherwise splendid strategy. In turn, the sales team blames the marketers for being out of touch with what's really going on with customers. Neither group fully values the other's contributions. If not repaired, such disconnects between marketing and sales can damage customer relationships and company performance.

A company can take several actions to help bring its marketing and sales functions closer together. At the most basic level, it can increase communications between the two groups by arranging joint meetings and spelling out communications channels. It can create opportunities for salespeople and marketers to work together. Brand managers and researchers can occasionally tag along on sales calls or sit in on sales planning sessions. In

turn, salespeople can sit in on marketing planning sessions and share their firsthand customer knowledge.

Managing the Sales Force

We define **sales force management** as analyzing, planning, implementing, and controlling sales force activities. It includes designing sales force strategy and structure and recruiting, selecting, training, compensating, supervising, and evaluating the firm's salespeople.

Designing the Sales Force Strategy and Structure

Marketing managers face several sales force strategy and design questions. How should salespeople and their tasks be structured? How big should the sales force be? Should salespeople sell alone or work in teams with other people in the company? Should they sell in the field, by telephone, or on the Web? We address these issues next.

The Sales Force Structure

A company can divide sales responsibilities along any of several lines. The structure decision is simple if the company sells only one product line to one industry with customers in many locations. In that case the company would use a territorial sales force structure. However, if the company sells many products to many types of customers, it might need a product sales force structure, a customer sales force structure, or a combination of the two.

Territorial Sales Force Structure.

In the **territorial sales force structure**, each salesperson is assigned to an exclusive geographic area and sells the company's full line of products or services to all customers in that territory. This organization clearly defines each salesperson's job and fixes accountability. It also increases the salesperson's desire to build local customer relationships that, in turn, improve selling effectiveness. Finally, because each salesperson travels within a limited geographic area, travel expenses are relatively small. A territorial sales organization is often supported by many levels of sales management positions. For example, Stanley Black & Decker uses a territorial structure in which each salesperson is responsible for selling all of the company's products—from hand tools to lawn and garden equipment—in assigned territories. Starting at the bottom of the organization are entry-level territory sales representatives who report to territory managers. Territory sales representatives cover smaller areas, such as Eastern North Carolina, and territory managers cover larger areas such as the Carolinas and Virginia. Territory managers, in turn, report to regional managers, who cover regions such as the Southeast or West Coast. Regional managers, in turn, report to a director of sales.

Product Sales Force Structure. Salespeople must know their products, especially when the products are numerous and complex. This need, together with the growth of product management, has led many companies to adopt a **product sales force structure**, in which the sales force sells along product lines. For example, GE employs different sales forces within different product and service divisions of its major businesses. Within GE Infrastructure, for instance, the company has separate sales forces for aviation, energy, transportation, and water processing products and technologies. Within GE Healthcare, it employs different sales forces for diagnostic imaging, life sciences, and integrated IT products and services.

Customer Sales Force Structure. More and more companies are now using a **customer** (or **market**) **sales force structure**, in which they organize the sales force along customer or industry lines. Separate sales forces may be set up for different industries, serving current customers versus finding new ones, and serving major accounts versus regular accounts. Many companies even have special sales forces to handle the needs of individual large customers.

Complex Sales Force Structures. When a company sells a wide variety of products to many types of customers over a broad geographic area, it often combines several types of sales force structures. Salespeople can be specialized by customer and territory; product and territory; product and customer; or territory, product, and customer. For example, Stanley Black & Decker specializes its sales force by customer (with different sales forces calling on Home Depot, Lowe's, and smaller independent retailers) and by territory for each key customer group (territory representatives, territory managers, regional managers, and so on). No single structure is best for all companies and situations. Each company should select a sales force structure that best serves the needs of its customers and fits its overall marketing strategy.

Customer (or market) sales force structure

A good sales structure can mean the difference between success and failure. Over time, sales force structures can grow complex, inefficient, and unresponsive to customers' needs. Companies should periodically review their sales force organizations to be certain that they serve the needs of the company and its customers.

Sales Force Size

Once the company has set its structure, it is ready to consider sales force size. Sales forces may range in size from only a few salespeople to tens of thousands. Some sales forces are huge—for example, PepsiCo employs 36,000 salespeople; American Express, 23,400; GE, 16,400; and Xerox, 15,000.5 Salespeople constitute one of the company's most productive—and most expensive— assets. Therefore, increasing their numbers will increase both sales and costs.

Outside and Inside Sales Forces. The company may have an **outside sales force** (or **field sales force**), an **inside sales force**, or both. Outside salespeople travel to call on customers in the field. Inside salespeople conduct business from their offices via telephone, the Internet, or visits from buyers.

Some inside salespeople provide support for the outside sales force, freeing them to spend more time selling to major accounts and finding new prospects. For example, technical sales support people provide technical information and answers to customers' questions. Sales assistants provide administrative backup for outside salespeople. They call ahead and confirm appointments, follow up on deliveries, and answer customers' questions when outside salespeople cannot be reached. Using such combinations of inside and outside salespeople can help serve important customers better. The inside rep provides daily access and support; the outside rep provides face-to-face collaboration and relationship building.

Other inside salespeople do more than just provide support. Telemarketer's and Web sellers use the phone and Internet to find new leads and qualify prospects or sell and service accounts directly. Telemarketing and Web selling can be very effective, less costly ways to sell to smaller, harder-to-reach customers. Depending on the complexity of the product and customer, for example, a telemarketer can make from 20 to 33 decision-maker contacts a day, compared to the average of four that an outside salesperson can make. And whereas an average B-to-B field sales call costs $350 or more, a routine industrial telemarketing call costs only about $5 and a complex call about $20.7

Team Selling. As products become more complex, and as customers grow larger and more demanding, a single salesperson simply can't handle all of a large customer's needs. Instead, most companies now use **team selling** to service large, complex accounts. Sales teams can unearth problems, solutions, and sales opportunities that no individual salesperson could do. Such teams might include experts from any area or level of the selling firm—sales, marketing, technical and support services, R&D, engineering, operations, finance, and others. In many cases, the move to team selling mirrors similar changes in customers' buying organizations. "Buyers implementing team-based purchasing decisions have necessitated the equal and opposite creation of team-based selling—a completely new way of doing business for many independent, self-motivated salespeople," says a sales force analyst. "Today, we're calling on teams of buying people, and that requires more firepower on our side," agrees one sales vice president. "One salesperson just can't do it all—can't be an expert in everything we're bringing to the customer. We have strategic account teams, led by customer business managers, who basically are our quarterbacks." Some companies, such as IBM, Xerox, and P&G, have used teams for a long time. In the

Recruiting and Selecting Salespeople

At the heart of any successful sales force operation is the recruitment and selection of good salespeople. The performance difference between an average salesperson and a top salesperson can be substantial. In a typical sales force, the top 30 percent of the salespeople might bring in 60 percent of the sales. Thus, careful salesperson selection can greatly increase overall sales force performance. Beyond the differences in sales performance, poor selection results in costly turnover. When a salesperson quits, the costs of finding and training a new salesperson—plus the costs of lost sales—can be very high. Also, a sales force with many new people is less productive, and turnover disrupts important customer relationships. What sets great salespeople apart from all the rest? In an effort to profile top sales performers, Gallup Consulting, a division of the well-known Gallup polling organization, has interviewed hundreds of thousands of salespeople. Its research suggests that the best salespeople possess four key talents: intrinsic motivation, a disciplined work style, the ability to close a sale, and, perhaps most important, the ability to build relationships with customers.11 Super salespeople are motivated from within—they have an unrelenting drive to excel. Some salespeople are driven by money, a desire for recognition, or the satisfaction of competing and winning. Others are driven by the desire to provide service and build relationships. The best salespeople possess some of each of these motivations. They also have a disciplined work style. They lay out detailed, organized plans and then follow through in a timely way.

Supervising Salespeople

Companies vary in how closely they supervise their salespeople. Many help salespeople identify target customers and set call objectives. Some may also specify how much time the sales force should spend prospecting for new accounts and set other time management priorities. One tool is the weekly, monthly, or annual call plan that shows which customers and prospects to call on and which activities to carry out. Another tool is time-and-duty analysis.

Selling and the Internet

Perhaps the fastest-growing sales technology tool is the Internet. The Internet offers explosive potential for conducting sales operations and interacting with and serving customers. Sales organizations are now both enhancing their effectiveness and saving time and money by using a host of Internet approaches to train sales reps, hold sales meetings, service accounts, and even conduct live sales meetings with customers. Some call it **Sales 2.0**, the merging of innovative sales practices with Web 2.0 technologies to improve sales force effectiveness and efficiency:

Motivating Salespeople

Beyond directing salespeople, sales managers must also motivate them. Some salespeople will do their best without any special urging from management. To them, selling may be the most fascinating job in the world. But selling can also be frustrating. Salespeople often work alone, and they must sometimes travel away from home. They may face aggressive competing salespeople and difficult customers. Therefore, salespeople often need special encouragement to do their best.

Management can boost sales force morale and performance through its organizational climate, sales quotas, and positive incentives. Organizational climate describes the feeling that salespeople have about their opportunities, value, and rewards for a good performance.

Some companies treat salespeople as if they are not very important, so performance suffers accordingly. Other companies treat their salespeople as valued contributors and allow virtually unlimited opportunity for income and promotion. Not surprisingly, these companies enjoy higher sales force performance and less turnover.

Many companies motivate their salespeople by setting **sales quotas**—standards stating the amount they should sell and how sales should be divided among the company's products. Compensation is often related to how well salespeople meet their quotas. Companies also use various positive incentives to increase the sales force effort. Sales meetings provide social occasions, breaks from the routine, chances to meet and talk with "company brass," and opportunities to air feelings and identify with a larger group. Companies also sponsor sales contests to spur the sales force to make a selling effort above and beyond what is normally expected. Other incentives include honors, merchandise and cash awards, trips, and profit-sharing plans.

Evaluating Salespeople and Sales Force Performance

We have thus far described how management communicates what salespeople should be doing and how it motivates them to do it. This process requires good feedback. And good feedback means getting regular information about salespeople to evaluate their performance.

Management gets information about its salespeople in several ways. The most important source is sales reports, including weekly or monthly work plans and longer-term territory marketing plans. Salespeople also write up their completed activities on call reports and turn in expense reports for which they are partly or wholly reimbursed. The company can also monitor the sales and profit performance data in the salesperson's territory. Additional information comes from personal observation, customer surveys, and talks with other salespeople.

Using various sales force reports and other information, sales management evaluates the members of the sales force. It evaluates salespeople on their ability to "plan their work and work their plan." Formal evaluation forces management to develop and communicate clear standards for judging performance. It also provides salespeople with constructive feedback and motivates them to perform well. On a broader level, management should evaluate the performance of the sales force as a whole. Is the sales force accomplishing its customer relationship, sales, and profit objectives?

Steps in the Selling Process

The Personal Selling Process

We now turn from designing and managing a sales force to the personal selling process. The **selling process** consists of several steps that salespeople must master. These steps focus on the goal of getting new customers and obtaining orders from them. However, most salespeople spend much of their time maintaining existing accounts and building long-term customer relationships. We discuss the relationship aspect of the personal selling process in a later section.

Prospecting and Qualifying

The first step in the selling process is **prospecting—**identifying qualified potential customers. Approaching the right potential customers is crucial to the selling success. As one sales expert puts it, “If the sales force starts chasing anyone who is breathing and seems to have a budget, you risk accumulating a roster of expensive-to-serve, hard-to-satisfy customers who never respond to whatever value proposition you have.” He continues, “The solution to this isn’t rocket science. [You must] train salespeople to actively scout the right prospects.” Another expert concludes, “Increasing your prospecting effectiveness is the fastest single way to boost your sales.”

Preapproach

Before calling on a prospect, the salesperson should learn as much as possible about the organization (what it needs, who is involved in the buying) and its buyers (their characteristics and buying styles). This step is known as **preapproach**. “Revving up your sales starts with your preparation,” says one sales consultant. “A successful sale begins long before you set foot in the prospect’s office.” Preapproach begins with good research. The salesperson can consult standard industry and online sources, acquaintances, and others to learn about the company. Then the salesperson must apply the research to develop a customer strategy.

Approach

During the **approach** step, the salesperson should know how to meet and greet the buyer and get the relationship off to a good start. This step involves the salesperson’s appearance, opening lines, and follow-up remarks. The opening lines should be positive to build goodwill from the outset. This opening might be followed by some key questions to learn more about the customer’s needs or by showing a display or sample to attract the buyer’s attention and curiosity. As in all stages of the selling process, listening to the customer is crucial.

Presentation and Demonstration

During the **presentation** step of the selling process, the salesperson tells the “value story” to the buyer, showing how the company’s offer solves the customer’s problems. The customer-solution approach fits better with today’s relationship marketing focus than does a hard sell or glad-handing approach. “Stop selling and start helping,” advises one sales consultant. “Your goal should be to sell your customers exactly what will benefit them most,” says another.24 Buyers today want answers, not smiles; results, not razzle-dazzle. Moreover, they don’t want just products. More than ever in today’s economic climate, buyers want to know how those products will add value to their businesses. They want salespeople who listen to their concerns, understand their needs, and respond with the right products and services.

Handling Objections

Customers almost always have objections during the presentation or when asked to place an order. The problem can be either logical or psychological, and objections are often unspoken. In **handling objections**, the salesperson should use a positive approach, seek out hidden objections, ask the buyer to clarify any objections, take objections as opportunities to provide more information, and turn the objections into reasons for buying. Every salesperson needs training in the skills of handling objections.

Closing

After handling the prospect's objections, the salesperson now tries to close the sale. Some salespeople do not get around to **closing** or handle it well. They may lack confidence, feel guilty about asking for the order, or fail to recognize the right moment to close the sale. Salespeople should know how to recognize closing signals from the buyer, including physical actions, comments, and questions. For example, the customer might sit forward and nod approvingly or ask about prices and credit terms.

Salespeople can use one of several closing techniques. They can ask for the order, review points of agreement, offer to help write up the order, ask whether the buyer wants this model or that one, or note that the buyer will lose out if the order is not placed now. The salesperson may offer the buyer special reasons to close, such as a lower price or an extra quantity at no charge.

Follow-Up

The last step in the selling process—**follow-up**—is necessary if the salesperson wants to ensure customer satisfaction and repeat business. Right after closing, the salesperson should complete any details on delivery time, purchase terms, and other matters. The salesperson then should schedule a follow-up call after the buyer receives the initial order to make sure proper installation, instruction, and servicing occur. This visit would reveal any problems, assure the buyer of the salesperson's interest, and reduce any buyer concerns that might have arisen since the sale.

Personal Selling and Managing Customer Relationships

The steps in the selling process as just described are transaction oriented—their aim is to help salespeople close a specific sale with a customer. But in most cases, the company is not simply seeking a sale. Rather, it wants to serve the customer over the long haul in a mutually profitable relationship. The sales force usually plays an important role in customer relationship building. Thus, as shown in Figure 16.3, the selling process must be understood in the context of building and maintaining profitable customer relationships.

Sales Promotion

Personal selling and advertising often work closely with another promotion tool, sales promotion. **Sales promotion** consists of short-term incentives to encourage the purchase or sales of a product or service. Whereas advertising offers reasons to buy a product or service, sales promotion offers reasons to buy now.

Consumer promotions include a wide range of tools—from samples, coupons, refunds, premiums, and point-of-purchase displays to contests, sweepstakes, and event sponsorships. Samples are offers of a trial amount of a product. Sampling is the most effective—but most expensive—way to introduce a new product or create new excitement for an existing one. Some samples are free; for others, the company charges a small amount to offset its cost.

Marketers are also cultivating new outlets for distributing coupons, such as supermarket shelf dispensers, electronic point-of-sale coupon printers, and online and mobile coupon programs. According to a recent study, digital coupons now outpace printed newspaper coupons by 10 to 1. Almost one-third of all U.S. coupon users are digital coupon users who get coupons only online or by phone via sites such as Coupons.com, Groupon, McCoupster,

and Cellfire (see Real Marketing 16.2). Cash refunds (or rebates) are like coupons except that the price reduction occurs after the purchase rather than at the retail outlet. The customer sends a "proof of purchase" to the manufacturer, which then refunds part of the purchase price by mail. For example, Toro ran a clever preseason promotion on some of its snowblower models, offering a rebate if the snowfall in the buyer's market area turned out to be below average. Competitors were not able to match this offer on such short notice, and the promotion was very successful.

Price packs (also called cents-off deals) offer consumers savings off the regular price of a product. The producer marks the reduced prices directly on the label or package. Price packs can be single packages sold at a reduced price (such as two for the price of one) or two related products banded together (such as a toothbrush and toothpaste). Price packs are very effective—even more so than coupons—in stimulating short-term sales.

Premiums are goods offered either free or at low cost as an incentive to buy a product, ranging from toys included with kids' products to phone cards and DVDs. Apremium may come inside the package (in-pack), outside the package (on-pack), or through the mail. For example, over the years, McDonald's has offered a variety of premiums in its Happy Meals—from Avatar characters to My Little Pony and How to Train Your Dragon toy figures. Customers can visit www.happymeal.com and play games and watch commercials associated with the current Happy Meal sponsor.30

Advertising specialties, also called promotional products, are useful articles imprinted with an advertiser's name, logo, or message that are given as gifts to consumers. Typical items include T-shirts and other apparel, pens, coffee mugs, calendars, key rings, mouse pads, matches, tote bags, coolers, golf balls, and caps. U.S. marketers spent more than $18 billion on advertising specialties last year. Such items can be very effective. The "best of them stick around for months, subtly burning a brand name into a user's brain," notes a promotional products expert.

Point-of-purchase (POP) promotions include displays and demonstrations that take place at the point of sale. Think of your last visit to the local Safeway, Costco, CVS, or Bed Bath & Beyond. Chances are good that you were tripping over aisle displays, promotional signs, "shelf talkers," or demonstrators offering free tastes of featured food products. Unfortunately, many retailers do not like to handle the hundreds of displays, signs, and posters they receive from manufacturers each year. Manufacturers have responded by offering better POP materials, offering to set them up, and tying them in with television, print, or online messages. Contests, sweepstakes, and games give consumers the chance to win something, such as cash, trips, or goods, by luck or through extra effort. Acontest calls for consumers to submit an entry—a jingle, guess, suggestion—to be judged by a panel that will select the best entries.

A sweepstakes calls for consumers to submit their names for a drawing. A game presents consumers with something—bingo numbers, missing letters—every time they buy, which may or may not help them win a prize. Such promotions can create considerable brand attention and consumer involvement.32

Trade Promotions

Manufacturer's direct more sales promotion dollars toward retailers and wholesalers (81 percent) than to final consumers (16 percent).35 **Trade promotions** can persuade resellers to carry a brand, give it shelf space, promote it in advertising, and push it to consumers.

Event marketing (or event sponsorships)

Creating a brand-marketing event or serving as a sole or participating sponsor of events created by others.

Business Promotions

Companies spend billions of dollars each year on promotion to industrial customers. **Business promotions** are used to generate business leads, stimulate purchases, reward customers, and motivate salespeople. Business promotions include many of the same tools used for consumer or trade promotions. Here, we focus on two additional major business promotion tools: conventions and trade shows and sales contests.

Developing the Sales Promotion Program

Beyond selecting the types of promotions to use, marketers must make several other decisions in designing the full sales promotion program. First, they must determine the size of the incentive. A certain minimum incentive is necessary if the promotion is to succeed; a larger incentive will produce more sales response. The marketer also must set conditions for participation. Incentives might be offered to everyone or only to select groups.

REVIEW QUESTIONS

1. Discuss the role of personal selling in the promotion mix. In what situations is it more effective than advertising?

2. Compare and contrast the three sales force structures outlined in the unit. Which structure is most effective?

3. What role does an inside sales force play in an organization?

4. Define sales promotion and discuss its objectives.

5. Name and describe the types of consumer promotions.

6. Name and describe the types of trade sales promotions.

FURTHER READINGS

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IMPORTANT NOTES

UNIT-17 DIRECT AND ONLINE MARKETING BUILDING DIRECT CUSTOMER RELATIONSHIPS

CONTENTS

INTRODUCTION

Direct marketing consists of connecting directly with carefully targeted consumers, often on a one-to-one, interactive basis. Using detailed databases, companies tailor their marketing offers and communications to the needs of narrowly defined segments or individual buyers.

Beyond brand and relationship building, direct marketers usually seek a direct, immediate, and measurable consumer response. For example, as we learned in the opening story, Amazon interacts directly with customers on its Web site to help them discover and buy almost anything and everything on the Internet. Similarly, GEICO interacts directly with customers—by telephone, through its Web site, or even on its Facebook, Twitter, or YouTube pages—to build individual brand relationships, give insurance quotes, sell policies, or service customer accounts.

The New Direct Marketing Model

Early direct marketers—catalog companies, direct mailers, and telemarketers—gathered customer names and sold goods mainly by mail and telephone. Today, however, spurred by rapid advances in database technologies and new marketing media—especially the Internet—direct marketing has undergone a dramatic transformation. In previous units, we discussed direct marketing as direct distribution—as marketing channels that contain no intermediaries. We also include direct marketing as one element of the promotion mix—as an approach for communicating directly with consumers. In actuality, direct marketing is both of these things and more. Most companies still use direct marketing as a supplementary channel or medium. Thus, Lexus markets mostly through mass-media advertising and its high-quality dealer network but also supplements these channels with direct marketing. Its direct marketing includes promotional DVDs and other materials mailed directly to prospective buyers and a Web page (www.lexus.com) that provides customers with information about various models, competitive comparisons, financing, and dealer locations. Similarly, most department stores, such as Sears or Macy's, sell the majority of their merchandise off their store shelves, but they also sell through direct mail and online catalogs.

Growth and Benefits of Direct Marketing

Direct marketing has become the fastest-growing form of marketing. According to the Direct Marketing Association (DMA), U.S. companies spent $149.3 billion on direct marketing last year, 54 percent of the total dollars spent on advertising. In 2009, an investment of $1 in direct marketing advertising expenditures returned, on average, an estimated $11.65 in incremental revenue across all industries. Put another way, these expenditures generated an estimated $1.2 trillion in direct marketing sales, which is about 8 percent of total sales in the U.S. economy. The DMA estimates that direct marketing sales will grow 5.3 percent annually through 2013, compared with a projected 4.1 percent annual growth for total U.S. sales.

Direct marketing continues to become more Web-oriented, and Internet marketing is claiming a fast-growing share of marketing spending and sales. For example, U.S. marketers spent an estimated $23 billion on online advertising last year, 16.2 percent of all media expenditures and more than twice as much as they spent only four years earlier. These efforts generated nearly $300 billion in online consumer spending.3

Benefits to Buyers

For buyers, direct marketing is convenient, easy, and private. Direct marketers never close their doors, and customers don't have to trek to and through stores to find products. From their homes, offices, or almost anywhere else, customers can shop the Web at any time of the day or night. Business buyers can learn about products and services without tying up time with salespeople.

Direct marketing gives buyers ready access to a wealth of products. Direct marketers can offer an almost unlimited selection to customers almost anywhere in the world. Just compare the huge selections offered by many Web merchants to the more meager assortments of their brick-and-mortar counterparts. For instance, log onto Bulbs.com, the Web's number one light bulb superstore, and you'll have instant access to every imaginable kind of light bulb or lamp—incandescent bulbs, fluorescent bulbs, projection bulbs, surgical bulbs, automotive bulbs—you name it. Similarly, direct retailer Zappos.com stocks more than 2.7 million shoes, handbags, clothing items, and accessories from more than 1,300 brands. No physical store could offer handy access to such vast selections.

Customer Databases and Direct Marketing

Effective direct marketing begins with a good customer database. A **customer database** is an organized collection of comprehensive data about individual customers or prospects. A good customer database can be a potent relationship-building tool. The database gives companies a 360-degree view of their customers and how they behave. A company is no better than what it knows about its customers.

In consumer marketing, the customer database might contain a customer's geographic data (address, region), demographic data (e.g., age, income, family members, birthdays), psychographic data (activities, interests, and opinions), and buying behavior (buying preferences and the recency, frequency, and monetary value [RFM] of past purchases). In B-to-B marketing, the customer profile might contain the products and services the customer has bought, past volumes and prices, key contacts, competing suppliers, the status of current contracts, estimated future spending, and competitive strengths and weaknesses in selling and servicing the account.

Forms of Direct Marketing

The major forms of direct marketing include personal selling, direct-mail marketing, catalog marketing, telephone marketing, direct-response television (DRTV) marketing, kiosk marketing, new digital direct marketing technologies, and online marketing. We examined personal selling in depth in Unit 16. Here, we examine the other forms of direct marketing.

Direct-mail marketing involves sending an offer, announcement, reminder, or other item to a person at a particular physical or virtual address. Using highly selective mailing lists, direct marketers send out millions of mail pieces each year—letters, catalogs, ads, brochures, samples, DVDs, and other "salespeople with wings." Direct mail is by far the largest direct marketing medium. The DMA reports that U.S. marketers spent $44.4 billion on direct mail last year (including both catalog and noncatalog mail), which accounted for 32 percent of all direct marketing spending.8

Direct mail is well suited to direct, one-to-one communication. It permits high target market selectivity, can be personalized, is flexible, and allows the easy measurement of results. Although direct mail costs more per thousand people reached than mass media such as television or magazines, the people it reaches are much better prospects. Direct mail has proved successful in promoting all kinds of products, from books, DVDs, insurance, gift items, gourmet foods, clothing, and other consumer goods to industrial products of all kinds. Charities also use direct mail heavily to raise billions of dollars each year.

Direct-mail marketing

Direct marketing by sending an offer, announcement, reminder, or other item to a person at a particular physical or virtual address.

Direct mail, whether traditional or digital, may be presented as "junk mail" or spam if sent to people who have no interest in it. For this reason, smart marketers are targeting their direct mail carefully so as not to waste their money and recipients' time. They are designing permission-based programs, sending mail, e-mail, and mobile ads only to those who want to receive them.

Catalog Marketing

Advances in technology, along with the move toward personalized, one-to-one marketing, have resulted in exciting changes in **catalog marketing**. Catalog Age magazine used to define a catalog as "a printed, bound piece of at least eight pages, selling multiple products, and offering a direct ordering mechanism." Today this definition is sadly out of date.

With the stampede to the Internet, more and more catalogs are going digital. Avariety of Web-only catalogers have emerged, and most print catalogers have added Web-based catalogs to their marketing mixes. Web-based catalogs eliminate printing and mailing costs. And whereas space is limited in a print catalog, online catalogs can offer an almost unlimited amount of merchandise.

Telephone marketing involves using the telephone to sell directly to consumers and business customers. Last year, telephone marketing accounted for more than 19 percent of all direct marketing-driven sales. We're all familiar with telephone marketing directed toward consumers, but B-to-B marketers also use telephone marketing extensively, accounting for more than 55 percent of all telephone marketing sales.13 Marketers use outbound telephone marketing to sell directly to consumers and businesses. They use inbound toll-free numbers to receive orders from television and print ads, direct mail, or catalogs.

Direct-response television (DRTV) marketing takes one of two major forms. The first is direct-response television advertising. Direct marketers air television spots, often 60 or 120 seconds in length, which persuasively describe a product and give customers a toll-free number or a Web site for ordering. Television viewers also often encounter full 30-minute or longer advertising programs, called infomercials, for a single product.

New Digital Direct Marketing Technologies

Mobile Phone Marketing

With more than 285 million Americans (91 percent) now subscribing to wireless services, many marketers view mobile phones as the next big direct marketing medium. Currently, 21 percent of cell phone subscribers use their phones to access the Web. Some 23 percent of cell phone users have seen advertising on their phones in the last 30 days, and about half of them responded to the ads.

A recent study estimates that worldwide mobile ad spending will grow from the current $3.1 billion annually to $28.8 billion by 2013. About 30 percent of marketers of all kinds—from Pepsi and Nordstrom to nonprofits such as the ASPCA to the local bank or supermarket—are now integrating mobile phones into their direct marketing. Many marketers have created mobileWeb sites, optimized for specific phones and mobile service providers. Others have created useful or entertaining apps to engage customers with their brands and help them shop (see Real Marketing 17.1). A mobile marketing effort might be as simple as inviting people to text a number, such as when the Red Cross asked for Haitian relief donations (Text "HAITI" to 90999 to donate $10). Or it might involve texting promotions to consumers—anything from ring-tone giveaways, mobile games and contests, and ad-supported content to retailer announcements of discounts, brand coupons, and gift suggestions.

Podcasts and Vodcasts

Podcasting and vodcasting are on-the-go, on-demand technologies. The name podcast derives from Apple's now-everywhere iPod. With podcasting, consumers can download audio files (podcasts) or video files (vodcasts) via the Internet to a handheld device and then listen to or view them whenever and wherever they wish. These days, you can download podcasts or vodcasts on an exploding array of topics, everything from your favorite NPR show, a recent sitcom episode, or current sports features to the latest music video or Snickers commercial.

Interactive TV (iTV)

Interactive TV (iTV) lets viewers interact with television programming and advertising using their remote controls. In the past, iTV has been slow to catch on. However, the technology now appears poised to take off as a direct marketing medium. Research shows that the level of viewer engagement with iTV is much higher than with 30-second spots. A recent poll indicated that 66 percent of viewers would be "very interested" in interacting with commercials that piqued their interest. And broadcasting systems such as DIRECTV, EchoStar, and Time Warner are now offering iTV capabilities.27

Interactive TV gives marketers an opportunity to reach targeted audiences in an interactive, more involving way. For example, HSN has launched a "Shop by Remote" iTV service that allows viewers to instantly purchase any item on HSN with their remotes. Viewers who are registered with HSN can complete a purchase in less than 30 seconds. New York area cable provider Cablevision offers an iTV service by which advertisers can run interactive 30-second spots.

During the ads, a bar at the bottom of the screen lets viewers use their remotes to choose additional content and offers, such as on-demand free product samples, brand channels, or video showcases. For example, a Gillette ad offered to send free samples of its body wash product, Benjamin Moore offered coupons for paint color samples, and Century 21 offered $10 gift cards. Advertisers such as Mattel Barbie and the U.S. Navy invited viewers to select their branded Cablevision channels for optional information and entertainment. So far, response rates for the interactive content have been impressive. For example, in an early test last year, the Disney Travel Channel allowed subscribers to browse information about Disney theme parks and then request a call from an agent. The booking rate for people requesting a call was 25 percent. More broadly, iTV ads slated to run for two weeks apiece had to be shortened, on average, by a week because marketers ran out of materials. For instance, Gillette pulled its ondemand samples offer a week early after maxing out the promotion at 30,000 samples.

Online Marketing

As noted earlier, **online marketing** is the fastest-growing form of direct marketing. Widespread use of the Internet is having a dramatic impact on both buyers and the marketers who serve them. In this section, we examine how marketing strategy and practice are changing to take advantage of today's Internet technologies.

Marketing and the Internet

Much of the world's business today is carried out over digital networks that connect people and companies. The **Internet**, a vast public web of computer networks, connects users of all types all around the world to each other and an amazingly large information repository. The Internet has fundamentally changed customers' notions of convenience, speed, price, product information, and service. As a result, it has given marketers a whole new way to create value for customers and build relationships with them.

Business-to-Consumer

The popular press has paid the most attention to **business-to-consumer (B-to-C) online marketing**—businesses selling goods and services online to final consumers. Today's consumers can buy almost anything online—from clothing, kitchen gadgets, and airline tickets to computers and cars. Even following the recent recession, online consumer buying continues to grow at a healthy double-digit rate. More than half of all U.S. households now regularly shop online. Current U.S. online retail sales of an estimated $279 billion are expected to grow at better than 11 percent a year over the next five years, compared with a growth rate of 2.5 percent in total retail sales.34

Business-to-Business

Although the popular press has given the most attention to B-to-C Web sites, **business-tobusiness (B-to-B) online marketing** is also flourishing. B-to-B marketers use Web sites, e-mail, online product catalogs, online trading networks, and other online resources to reach new business customers, serve current customers more effectively, and obtain buying efficiencies and better prices.

Most major B-to-B marketers now offer product information, customer purchasing, and customer-support services online. For example, corporate buyers can visit networking equipment and software maker Cisco Systems' Web site (www.cisco.com), select detailed descriptions of Cisco's products and service solutions, request sales and service information, attend events and training seminars, view videos on a wide range of topics, have live chats with Cisco staff, and place orders. Some major companies conduct almost all of their business on theWeb. For example, Cisco Systems takes more than 80 percent of its orders over the Internet.

Consumer-to-Consumer

Much **consumer-to-consumer (C-to-C) online marketing** and communication occurs on the Web between interested parties over a wide range of products and subjects. In some cases, the Internet provides an excellent means by which consumers can buy or exchange goods or information directly with one another. For example, eBay, Overstock.com Auctions, and other auction sites offer popular market spaces for displaying and selling almost anything, from art and antiques, coins and stamps, and jewelry to computers and consumer electronics. eBay's C-to-C online trading community of more than 90 million active users worldwide (that's more than the total populations of Britain, Egypt, or Turkey) transacted some $60 billion in trades last year. At any given time, the company's Web site lists more than 113 million items up for auction in more than 50,000 categories. Such C-to-C sites give people access to much larger audiences than the local flea market or newspaper classifieds (which, by the way, have also gone online at Web sites such as Craigslist.com and eBay Classifieds).

Consumer to Business

The final online marketing domain is **consumer-to-business (C-to-B) online marketing**. Thanks to the Internet, today's consumers are finding it easier to communicate with companies. Most companies now invite prospects and customers to send in suggestions and questions via company Web sites. Beyond this, rather than waiting for an invitation, consumers can search out sellers on the Web, learn about their offers, initiate purchases, and give feedback. Using the Web, consumers can even drive transactions with businesses, rather than the other way around. For example, using Priceline.com, would-be buyers can bid for airline tickets, hotel rooms, rental cars, cruises, and vacation packages, leaving the sellers to decide whether to accept their offers.

Creating a Web Site

For most companies, the first step in conducting online marketing is to create a Web site. However, beyond simply creating a Web site, marketers must design an attractive site and find ways to get consumers to visit the site, stay around, and come back often.

Web sites vary greatly in purpose and content. The most basic type is a **corporate** (or **brand**) **Web site**. These sites are designed to build customer goodwill, collect customer feedback, and supplement other sales channels rather than sell the company's products directly. They typically offer a rich variety of information and other features in an effort to answer customer questions, build closer customer relationships, and generate excitement about the company or brand.

For example, you can't buy anything at P&G's Old Spice brand site, but you can learn about the different Old Spice products, watch recent ads, enter the latest contest, and post comments on the Old Spice blog. Similarly, GE's corporate Web site serves as a global public face for the huge company. It presents a massive amount of product, service, and company information to a diverse audience of customers, investors, journalists, and employees. It's both a B-to-B site and a portal for consumers, whether it's a U.S. consumer researching a microwave, an Indonesian business buyer checking into eco-friendly locomotives, or a German investor looking for shareholder information. Other companies create a **marketing Web site**. These sites engage consumers in an interaction that will move them closer to a direct purchase or other marketing outcome. For example, MINI USA operates a marketing Web site at www.miniusa.com. Once a potential customer clicks in, the carmaker wastes no time trying to turn the inquiry into a sale and then into a long-term relationship. The site offers a garage full of useful information and interactive selling features, including detailed and fun descriptions of current MINI models, tools for designing your very own MINI, information on dealer locations and services, and even tools for tracking your new MINI from factory to delivery.

Viral marketing

The Internet version of word-of-mouth marketing: Web sites, videos, e-mail messages, or other marketing events that are so infectious that customers will want to pass them along to friends.

Online advertising

Advertising that appears while consumers are browsing the Web, including display ads, search-related ads, online classifieds, and other forms.

Creating or Participating in Online Social Networks

As we discussed in Units 1 and 5, the popularity of the Internet has resulted in a rash of **online social networks** or Web communities. Countless independent and commercial Web sites have arisen that give consumers online places to congregate, socialize, and exchange views and information. These days, it seems, almost everyone is buddying up on Facebook, checking in with Twitter, tuning into the day's hottest videos at YouTube, or checking out photos on Flickr. And, of course, wherever consumers congregate, marketers will surely follow.

Public Policy Issues in Direct Marketing

Direct marketers and their customers usually enjoy mutually rewarding relationships. Occasionally, however, a darker side emerges. The aggressive and sometimes shady tactics of a few direct marketers can bother or harm consumers, giving the entire industry a black eye. Abuses range from simple excesses that irritate consumers to instances of unfair practices or even outright deception and fraud. The direct marketing industry has also faced growing invasion-of-privacy concerns, and online marketers must deal with Internet security issues. Irritation, Unfairness, Deception, and Fraud Direct marketing excesses sometimes annoy or offend consumers. Most of us dislike directresponse TV commercials that are too loud, long, and insistent. Our mailboxes fill up with unwanted junk mail, our e-mailboxes bulge with unwanted spam, and our computer screens flash with unwanted display or pop-under ads.

REVIEW QUESTIONS

1. Discuss the importance of customer databases in direct marketing.

2. Describe the four major online marketing domains and give an example of each.

3. Name and describe the major forms of direct marketing.

4. Explain the ways in which companies can establish an online marketing presence.

5. Compare and contrast the different forms of online advertising. What factors should a company consider in deciding among these different forms?

6. What is phishing? How does it harm consumers and marketers?

FURTHER READINGS

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4. Marketing management-s.h.h. kajami
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IMPORTANT NOTES

UNIT-18 CREATING COMPETITIVE ADVANTAGE

CONTENTS

INTRODUCTION

Today's companies face their toughest competition ever. In previous units, we argued that to succeed in today's fiercely competitive marketplace, companies must move from a product-and-selling philosophy to a customer-and-marketing philosophy. This unit spells out in more detail how companies can go about outperforming competitors to win, keep, and grow customers. To win in today's marketplace, companies must become adept not only in managing products but also in managing customer relationships in the face of determined competition and a difficult economic environment. Understanding customers is crucial, but it's not enough. Building profitable customer relationships and gaining **competitive advantage** requires delivering more value and satisfaction to target customers than competitors do. Customers will see competitive advantages as customer advantages, giving the company an edge over its competitors. In this unit, we examine competitive marketing strategies—how companies analyse their competitors and develop successful, customer value-based strategies for building and maintaining profitable customer relationships. The first step is **competitor analysis**, the process of identifying, assessing, and selecting key competitors. The second step is developing **competitive marketing strategies** that strongly position the company against competitors and give it the greatest possible competitive advantage.

Competitor Analysis

To plan effective marketing strategies, the company needs to find out all it can about its competitors. It must constantly compare its marketing strategies, products, prices, channels, and promotions with those of close competitors. In this way, the company can find areas of potential competitive advantage and disadvantage.

Identifying Competitors

Normally, identifying competitors would seem to be a simple task. At the narrowest level, a company can define its competitors as other companies offering similar products and services to the same customers at similar prices. Thus, Abercrombie & Fitch might see the Gap as a major competitor, but not Macy's or Target. The Ritz-Carlton might see the Four Seasons hotels as a major competitor, but not Holiday Inn, the Hampton Inn, or any of the thousands of bed-and-breakfasts that dot the nation.

Determining Competitors' Objectives

Each competitor has a mix of objectives. The company wants to know the relative importance that a competitor places on current profitability, market share growth, cash flow, technological leadership, service leadership, and other goals. Knowing a competitor's mix of objectives reveals whether the competitor is satisfied with its current situation and how it might react to different competitive actions. For example, a company that pursues low-cost leadership will react much more strongly to a competitor's cost-reducing manufacturing breakthrough than to the same competitor's advertising increase.

Identifying Competitors' Strategies

The more that one firm's strategy resembles another firm's strategy, the more the two firms compete. In most industries, the competitors can be sorted into groups that pursue different strategies. A **strategic group** is a group of firms in an industry following the same or a similar strategy in a given target market.

Assessing Competitors' Strengths and Weaknesses

Marketers need to carefully assess each competitor's strengths and weaknesses to answer a critical question: What can our competitors do? As a first step, companies can gather data on each competitor's goals, strategies, and performance over the past few years. Admittedly, some of this information will be hard to obtain. For example, B-to-B marketers find it hard to estimate competitors' market shares because they do not have the same syndicated data services that are available to consumer packaged-goods companies.

Companies normally learn about their competitors' strengths and weaknesses through secondary data, personal experience, and word of mouth. They can also conduct primary marketing research with customers, suppliers, and dealers. Or they can **benchmark** themselves against other firms, comparing one company's products and processes to those of competitors or leading firms in other industries to identify best practices and find ways to improve quality and performance. Benchmarking has become a powerful tool for increasing a company's competitiveness.

Estimating Competitors' Reactions

Next, the company wants to know: What will our competitors do? A competitor's objectives, strategies, and strengths and weaknesses go a long way toward explaining its likely actions. They also suggest its likely reactions to company moves, such as price cuts, promotion increases, or new-product introductions. In addition, each competitor has a certain philosophy of doing business, a certain internal culture and guiding beliefs. Marketing managers need a deep understanding of a given competitor's mentality if they want to anticipate how the competitor will act or react.

Each competitor reacts differently. Some do not react quickly or strongly to a competitor's move. They may feel their customers are loyal, they may be slow in noticing the move, or they may lack the funds to react. Some competitors react only to certain types of moves and not to others. Other competitors react swiftly and strongly to any action. Thus, P&G does not allow a competitor's new detergent to come easily into the market. Many firms avoid direct competition with P&G and look for easier prey, knowing that P&G will react fiercely if it is challenged.

Strong or Weak Competitors

The company can focus on one of several classes of competitors. Most companies prefer to compete against weak competitors. This requires fewer resources and less time. But in the process, the firm may gain little. You could argue that the firm also should compete with strong competitors to sharpen its abilities. Moreover, even strong competitors have some weaknesses, and succeeding against them often provides greater returns.

A useful tool for assessing competitor strengths and weaknesses is **customer value analysis**. The aim of customer value analysis is to determine the benefits that target customers value and how customers rate the relative value of various competitors' offers. In conducting a customer value analysis, the company first identifies the major attributes that customers value and the importance customers place on these attributes. Next, it assesses its performance and the performance of its competitors on those valued attributes. The key to gaining competitive advantage is to take each customer segment and examine how the company's offer compares to that of its major competitors. The company wants to find the place in the market where it meets customers' needs in a way that rivals can't. If the company's offer delivers greater value by exceeding the competitor's offer on important attributes, the company can charge a higher price and earn higher profits, or it can charge the same price and gain more market share. But if the company is seen as performing at a lower level than its major competitors on some important attributes, it must invest in strengthening those attributes or finding other important attributes where it can build a lead on its competitors.

Good or Bad Competitors

A company really needs and benefits from competitors. The existence of competitors results in several strategic benefits. Competitors may share the costs of market and product development and help legitimize new technologies. They may serve less-attractive segments or lead to more product differentiation. Finally, competitors may help increase total demand. For example, you might think that an independent coffeehouse surrounded by Starbucks stores might have trouble staying in business. But that's often not the case:4 Coffee shop owners around the country have discovered that the corporate steamroller known as Starbucks is actually good for their business. It turns out that when a Starbucks comes to the neighborhood, the result is new converts to the latte-drinking fold.

When all those converts overrun the local Starbucks, the independents are there to catch the spillover. In fact, some independent storeowners now actually try to open their stores near a Starbucks if they can. That's certainly not how the coffee behemoth planned it. "Starbucks is actually trying to be ruthless," says the owner of a small coffeehouse chain in Los Angeles. But "in its predatory store-placement strategy, Starbucks has been about as lethal a killer as a fluffy bunny rabbit." However, a company may not view all its competitors as beneficial. An industry often contains good competitors and bad competitors. Good competitors play by the rules of the industry.

Finding Uncontested Market Spaces

Rather than competing head to head with established competitors, many companies seek out unoccupied positions in uncontested market spaces. They try to create products and services for which there are no direct competitors. Called a "blue ocean strategy," the goal is to make competition irrelevant: Companies have long engaged in head-to-head competition in search of profitable growth. They have flocked for competitive advantage, battled over market share, and struggled for differentiation. Yet in today's overcrowded industries, competing headon results in nothing but a bloody "red ocean" of rivals fighting over a shrinking profit pool. In their book Blue Ocean Strategy, two marketing professors contend that although most companies compete within such red oceans, the strategy isn't likely to create profitable growth in the future. Tomorrow's leading companies will succeed not by battling competitors but by creating "blue oceans" of uncontested market space. Such strategic moves—termed value innovation—create powerful leaps in value for both the firm and its buyers, creating all new demand and rendering rivals obsolete. By creating and capturing blue oceans, companies can largely take rivals out of the picture.

One example of a company exhibiting blue-ocean thinking is Allegiant Air, the profitable low-cost airline that avoids direct competition with major airline rivals by targeting smaller, neglected markets and new flyers. Allegiant "goes where they ain't" (see Real Marketing 18.1). Another example is Cirque du Soleil, which reinvented the circus as a higher form of modern entertainment. At a time when the circus industry was declining, Cirque du Soleil innovated by eliminating high cost and controversial elements such as animal acts and instead focused on the theatrical experience. Cirque du Soleil did not compete with then market leader Ringling Bros. and Barnum & Bailey; it was altogether different from anything that preceded it. Instead, it created an uncontested new market space that made existing competitors irrelevant. The results have been spectacular. Thanks to its blue-ocean strategy, in only its first 20 years, Cirque du Soleil achieved more revenues than Ringling Brothers and Barnum & Bailey achieved in its first 100 years.

Designing a Competitive Intelligence System

We have described the main types of information that companies need about their competitors. This information must be collected, interpreted, distributed, and used. Gathering competitive intelligence can cost considerable money and time, so the company must design a cost-effective competitive intelligence system.

The competitive intelligence system first identifies the vital types of competitive information needed and the best sources of this information. Then, the system continuously collects information from the field (sales force, channels, suppliers, market research firms, Web sites, and trade associations) and published data (government publications, speeches, and online databases). Next the system checks the information for validity and reliability, interprets it, and organizes it in an appropriate way. Finally, it sends key information to relevant decision makers and responds to inquiries from managers about competitors.

With this system, company managers receive timely intelligence information about competitors in the form of reports, phone calls, e-mails, bulletins, and newsletters. Managers can also connect with the system when they need to interpret a competitor's sudden move, when they want to know a competitor's weaknesses and strengths, or when they need to know how a competitor will respond to a planned company move.

Smaller companies that cannot afford to set up formal competitive intelligence offices can assign specific executives to watch specific competitors. Thus, a manager who used to work for a competitor might follow that competitor closely; he or she would be the "inhouse expert" on that competitor. Any manager needing to know the thinking of a given competitor could contact the assigned in-house expert.

Having identified and evaluated its major competitors, the company now must design broad competitive marketing strategies by which it can gain competitive advantage through superior customer value. But what broad marketing strategies might the company use? Which ones are best for a particular company or for the company's different divisions and products?

Approaches to Marketing Strategy

No one strategy is best for all companies. Each company must determine what makes the most sense given its position in the industry and its objectives, opportunities, and resources. Even within a company, different strategies may be required for different businesses or products. Johnson & Johnson uses one marketing strategy for its leading brands in stable consumer markets, such as BAND-AID, Tylenol, Listerine, or J&J's baby products, and a different marketing strategy for its high-tech health-care businesses and products, such as Monocryl surgical sutures or NeuFlex finger joint implants. Companies also differ in how they approach the strategy-planning process. Many large firms develop formal competitive marketing strategies and implement them religiously.

However, other companies develop strategy in a less formal and orderly fashion. Some companies, such as Harley-Davidson, Virgin Atlantic Airways, and BMW's MINI Cooper unit succeed by breaking many of the rules of marketing strategy. Such companies don't operate large marketing departments, conduct expensive marketing research, spell out elaborate competitive strategies, and spend huge sums on advertising. Instead, they sketch out strategies on the fly, stretch their limited resources, live close to their customers, and create more satisfying solutions to customer needs. They form buyer's clubs, use buzz marketing, and focus on winning customer loyalty. It seems that not all marketing must follow in the footsteps of marketing giants such as IBM and P&G.

In fact, approaches to marketing strategy and practice often pass through three stages: entrepreneurial marketing, formulated marketing, and intrepreneurial marketing.

• Entrepreneurial marketing: Most companies are started by individuals who live by their wits. For example, in the beginning, Robert Ehrlich, founder and CEO of Pirate Brands, a snack food company, didn't believe in formal marketing—or formal anything else. Pirate Brands markets a pantry full of all-baked, all-natural, trans fat and gluten-free snacks, including favorites such as Pirate's Booty, Potato Flyers, Smart Puffs, and Tings. Over the past two decades, founder Robert Ehrlich has built Pirate Brands into a thriving $50 million empire that's become a thorn in the paw of snack food lions like Nabisco using other airlines with connecting flights (and layovers) might take 19 hours—and you pay more for the ticket.

Less frequent flights make for more efficient use of Allegiant's fleet. For example, the low-cost airline serves 40 destinations from Las Vegas with only 14 planes, with an average occupancy of 90 percent. Greater efficiency results in higher margins, despite lower fares.

Under its blue ocean "go where they ain't" strategy, nicher Allegiant is thriving in an otherwise supercompetitive airline environment. Whereas the major airlines are battling it out with one another for the same passengers in major markets, Allegiant has found its own uncluttered space. In a mature industry that's struggling just to stay in the air, Allegiant has found a profitable place to land. According to Gallagher, Allegiant Air has identified 300 more potential routes in the United States, Canada, Mexico, and the Caribbean. And it recently agreed to acquire 18 more MD-80s from another airline. "They're very much one of a kind," says an airline analyst. Forget talk about milking secondary markets, cutting costs, or flying allbut- vintage airplanes. "The truth is, [Allegiant Air] is a totally new business model."

• Formulated marketing: As small companies achieve success, they inevitably move toward more-formulated marketing. They develop formal marketing strategies and adhere to them closely. For example, as Pirate Brands has grown, it now takes a more formal approach to product development and its PR and distributor relations strategies. It has also developed more formal customer outreach efforts, such as a full-featureWeb page, a Facebook page, a "Booty Blog," and a Captain's Newsletter, which features product updates, coupons, special offers, and event listings. Although Pirate Brands will no doubt remain less formal in its marketing than the Frito-Lays of the marketing world, as it grows, it will adopt more-developed marketing tools.

• Intrepreneurial marketing: Many large and mature companies get stuck in formulated marketing. They pore over the latest Nielsen numbers, scan market research reports, and try to fine-tune their competitive strategies and programs. These companies sometimes lose the marketing creativity and passion they had at the start. They now need to reestablish within their companies the entrepreneurial spirit and actions that made them successful in the first place. They need to encourage more initiative and "entrepreneurship" at the local level. They need to refresh their marketing strategies and try new approaches. Their brand and product managers need to get out of the office, start living with their customers, and visualize new and creative ways to add value to their customers' lives.

The bottom line is that there are many approaches to developing effective competitive marketing strategy. There will be a constant tension between the formulated side of marketing and the creative side. It is easier to learn the formulated side of marketing, which has occupied most of our attention in this book. But we have also seen how marketing creativity and passion in the strategies of many of the companies studied—whether small or large, new or mature—have helped to build and maintain success in the marketplace. With this in mind, we now look at the broad competitive marketing strategies companies can use.

Basic Competitive Strategies

Three decades ago, Michael Porter suggested four basic competitive positioning strategies that companies can follow—three winning strategies and one losing one.7 The three winning strategies are as follows:

• Overall cost leadership: Here the company works hard to achieve the lowest production and distribution costs. Low costs let it price lower than its competitors and win a large market share. Texas Instruments and Walmart are leading practitioners of this strategy.

• Differentiation: Here the company concentrates on creating a highly differentiated product line and marketing program so that it comes across as the class leader in the industry. Most customers would prefer to own this brand if its price is not too high. IBM and Caterpillar follow this strategy in information technology services and heavy construction equipment, respectively.

• Focus: Here the company focuses its effort on serving a few market segments well rather than going after the whole market. For example, Ritz-Carlton focuses on the top 5 percent of corporate and leisure travelers. Tetra Food supplies 80 percent of pet tropical fish food. Similarly, Hohner owns a stunning 85 percent of the harmonica market. Companies that pursue a clear strategy—one of the above—will likely perform well. The firm that carries out that strategy best will make the most profits. But firms that do not pursue a clear strategy—middle-of-the-roaders—do the worst. Sears and Holiday Inn encountered difficult times because they did not stand out as the lowest in cost, highest in perceived value, or best in serving some market segment. Middle-of-the-roaders try to be good on all strategic counts but end up being not very good at anything.

• Operational excellence: The company provides superior value by leading its industry in price and convenience. It works to reduce costs and create a lean and efficient valuedelivery system. It serves customers who want reliable, good-quality products or services but want them cheaply and easily. Examples include Walmart, Costco, and Southwest Airlines.

• Customer intimacy: The company provides superior value by precisely segmenting its markets and tailoring its products or services to exactly match the needs of targeted customers. It specializes in satisfying unique customer needs through a close relationship with and intimate knowledge of the customer. It builds detailed customer databases for segmenting and targeting and empowers its marketing people to respond quickly to customer needs. Customer-intimate companies serve customers who are willing to pay a premium to get precisely what they want. They will do almost anything to build long-term customer loyalty and to capture customer lifetime value. Examples include Nordstrom, Lexus, British Airways, and Ritz-Carlton. As we learned in the very first unit, at fast-growing Web retailer Zappos.com, customer intimacy starts with a deep-down obsession with customer service.

• Product leadership: The company provides superior value by offering a continuous stream of leading-edge products or services. It aims to make its own and competing products obsolete. Product leaders are open to new ideas, relentlessly pursue new solutions, and work to get new products to market quickly. They serve customers who want state-of-the-art products and services, regardless of the costs in terms of price or inconvenience. Examples include Apple and Nokia. Some companies successfully pursue more than one value discipline at the same time.

Expanding Total Demand

The leading firm normally gains the most when the total market expands. If Americans eat more fast food, McDonald’s stands to gain the most because it holds more than three times the fast-food market share of nearest competitors Subway and Burger King. If McDonald’s can convince more Americans that fast food is the best eating-out choice in these economic times, it will benefit more than its competitors.

Market leaders can expand the market by developing new users, new uses, and more usage of its products. They usually can find new users or untapped market segments in many places. For example, Nutrisystem has typically targeted its weight loss programs toward women. Recently, however, it stepped up its efforts to attract male customers by advertising in media such as ESPN and Men’s Health. The ads feature Dan Marino and Don Shula, who talk about how they “ate like a man and still lost weight” with Nutrisystem. The company also created dedicated online features for men, such as a dedicated chat room. Since the launch of the targeted ads, the male share of Nutrisystem jumped from 13 percent to 32 percent.10 Marketers can expand markets by discovering and promoting new uses for the product.

Protecting Market Share

While trying to expand total market size, the leading firm also must protect its current business against competitors’ attacks. Walmart must constantly guard against Target; Caterpillar against Komatsu; and McDonald’s against Burger King. What can the market leader do to protect its position? First, it must prevent or fix weaknesses that provide opportunities for competitors. It must always fulfill its value promise. Its prices must remain consistent with the value that customers see in the brand. It must work tirelessly to keep strong relationships with valued customers. The leader should “plug holes” so that competitors do not jump in. But the best defense is a good offense, and the best response is continuous innovation. The market leader refuses to be content with the way things are and leads the industry in new products, customer services, distribution effectiveness, promotion, and cost cutting. It keeps increasing its competitive effectiveness and value to customers. And when attacked by challengers, the market leader reacts decisively. For example, in the laundry products category, market leader P&G has been relentless in its offense against challengers such as Unilever.

Expanding Market Share

Market leaders also can grow by increasing their market shares further. In many markets, small market share increases mean very large sales increases. For example, in the U.S. digital camera market, a 1 percent increase in market share is worth $66 million; in carbonated soft drinks, $739 million!Studies have shown that, on average, profitability rises with increasing market share. Because of these findings, many companies have sought expanded market shares to improve profitability. GE, for example, declared that it wants to be at least number one or two in each of its markets or else get out. GE shed its computer, air-conditioning, small appliances, and television businesses because it could not achieve top-dog position in those industries. However, some studies have found that many industries contain one or a few highly profitable large firms, several profitable and more focused firms, and a large number of medium-sized firms with poorer profit performance. It appears that profitability increases as a business gains share relative to competitors in its served market.

Market Challenger Strategies

Firms that are second, third, or lower in an industry are sometimes quite large, such as PepsiCo, Ford, Lowe’s, Hertz, and AT&T Mobility. These runner-up firms can adopt one of two competitive strategies: They can challenge the market leader and other competitors in an aggressive bid for more market share (market challengers). Or they can play along with competitors and not rock the boat (market followers).

A market challenger must first define which competitors to challenge and its strategic objective. The challenger can attack the market leader, a high-risk but potentially high-gain strategy. Its goal might be to take over market leadership. Or the challenger’s objective may simply be to wrest more market share.

Although it might seem that the market leader has the most going for it, challengers often have what some strategists call a “second-mover advantage.” The challenger observes what
has made the market leader successful and improves on it. For example, Home Depot invented the home-improvement superstore. However, after observing Home Depot’s success, number two Lowe’s, with its brighter stores, wider aisles, and arguably more helpful salespeople, has positioned itself as the friendly alternative to Big Bad Orange. Over the past 10 years, follower Lowe’s has consistently grown faster and more profitably than Home Depot. In fact, challengers often become market leaders by imitating and improving on the ideas of pioneering processors. PepsiCo challenges Coca-Cola in this way.

If the market challenger has fewer resources than the competitor, however, a frontal attack makes little sense. Thus, many new market entrants avoid frontal attacks, knowing that market leaders can head them off with ad blitzes, price wars, and other retaliations. Rather than challenging head-on, the challenger can make an indirect attack on the competitor's weaknesses or on gaps in the competitor's market coverage. It can carve out toeholds using tactics that established leaders have trouble responding to or choose to ignore.

Market Follower Strategies

Not all runner-up companies want to challenge the market leader. The leader never takes challenges lightly. If the challenger's lure is lower prices, improved service, or additional product features, the market leader can quickly match these to defuse the attack. The leader probably has more staying power in an all-out battle for customers. For example, a few years ago, when Kmart launched its renewed low-price "bluelight special" campaign, directly challenging Walmart's everyday low prices, it started a price war that it couldn't win. Walmart had little trouble fending off Kmart's challenge, leaving Kmart worse off for the attempt. Thus, many firms prefer to follow rather than challenge the market leader. Afollower can gain many advantages. The market leader often bears the huge expenses of developing new products and markets, expanding distribution, and educating the market. By contrast, as with challengers, the market follower can learn from the market leader's experience. It can copy or improve on the leader's products and programs, usually with much less investment. Although the follower will probably not overtake the leader, it often can be as profitable.

Market Nicher Strategies

Almost every industry includes firms that specialize in serving market niches. Instead of pursuing the whole market or even large segments, these firms target subsegments. Nichers are often smaller firms with limited resources. But smaller divisions of larger firms also may pursue niching strategies. Firms with low shares of the total market can be highly successful and profitable through smart niching.

Why is niching profitable? The main reason is that the market nicher ends up knowing the target customer group so well that it meets their needs better than other firms that casually sell to that niche. As a result, the nicher can charge a substantial markup over costs because of the added value. Whereas the mass marketer achieves high volume, the nicher achieves high margins.

Nichers try to find one or more market niches that are safe and profitable. An ideal market niche is big enough to be profitable and has growth potential. It is one that the firm can serve effectively. Perhaps most importantly, the niche is of little interest to major competitors. And the firm can build the skills and customer goodwill to defend itself against a major competitor as the niche grows and becomes more attractive. For example, computer mouse and interface device maker Logitech is only a fraction of the size of giant Microsoft.

Balancing Customer and Competitor Orientations

Whether a company is the market leader, challenger, follower, or nicher, it must watch its competitors closely and find the competitive marketing strategy that positions it most effectively. And it must continually adapt its strategies to the fast-changing competitive environment. This question now arises: Can the company spend too much time and energy tracking competitors, damaging its customer orientation? The answer is yes. Acompany can become so competitor centered that it loses its even more important focus on maintaining profitable customer relationships.

A **competitor-centered company** is one that spends most of its time tracking competitors' moves and market shares and trying to find strategies to counter them. This approach has some pluses and minuses. On the positive side, the company develops a fighter orientation, watches for weaknesses in its own position, and searches out competitors' weaknesses. On the negative side, the company becomes too reactive. Rather than carrying out its own customer relationship strategy, it bases its own moves on competitors' moves. As a result, it may end up simply matching or extending industry practices rather than seeking innovative new ways to create more value for customers.

A **customer-centered company**, by contrast, focuses more on customer developments in designing its strategies. Clearly, the customer-centered company is in a better position to identify new opportunities and set long-run strategies that make sense. By watching customer needs evolve, it can decide what customer groups and what emerging needs are the most important to serve. Then it can concentrate its resources on delivering superior value to target customers.

REVIEW QUESTIONS

1. Which point of view is best for identifying competitors— industry or market?

2. Explain how having strong competitors can benefit a company.

3. Name and describe the three basic winning competitive strategies espoused by Michael Porter.

4. Describe the three value disciplines for delivering superior customer value and explain why classifying competitive strategies in this way is appealing.

5. Discuss the advantages of being a market follower and the factors to consider when pursuing this strategy.

6. Compare and contrast product-oriented, competitorcentered, customer-centered, and market-centered companies. Which orientation is the best?

FURTHER READINGS

1. Marketing management-S.Jaychandran
2. Marketing managemen tand strategy-Peter dayal, Philip stern
3. Marketing management-Dhawan and sundaram
4. Marketing management-s.h.h. kajami
5. Marketing management-montgue brown

UNIT-19 THE GLOBAL MARKET PLACE

CONTENTS

INTRODUCTION

The world is shrinking rapidly with the advent of faster communication, transportation, and financial flows. Products developed in one country—Gucci purses, Sony electronics, McDonald's hamburgers, Japanese sushi, German BMWs—have found enthusiastic acceptance in other countries. It would not be surprising to hear about a German businessman wearing an Italian suit meeting an English friend at a Japanese restaurant who later returns home to drink Russian vodka and watch Dancing with the Stars on TV.

International trade has boomed over the past three decades. Since 1990, the number of multinational corporations in the world has grown from 30,000 to more than 63,000. Some of these multinationals are true giants. In fact, of the largest 150 "economies" in the world, only 81 are countries. The remaining 69 are multinational corporations. Walmart, the world's largest company, has annual revenues greater than the GDP of all but the world's 21 largest countries. Between 2000 and 2008, total world trade grew more than 7 percent per year, easily outstripping GDP output, which was about 3 percent. Despite a dip in world trade caused by the recent worldwide recession, the world trade of products and services last year was valued at more than $12 trillion, about 17 percent of GDP worldwide. Many U.S. companies have long been successful at international marketing: McDonald's, Coca-Cola, Starbucks, GE, IBM, Colgate, Caterpillar, Boeing, and dozens of other American firms have made the world their market. In the United States, names such as Sony, Toyota, Nestlé, IKEA, Canon, and Nokia have become household words. Other products and services that appear to be American are, in fact, produced or owned by foreign companies, such

A **global firm** is one that, by operating in more than one country, gains marketing, production, R&D, and financial advantages that are not available to purely domestic competitors. The global company sees the world as one market. It minimizes the importance of national boundaries and develops global brands. It raises capital, obtains materials and components, and manufactures and markets its goods wherever it can do the best job.

Before deciding whether to operate internationally, a company must understand the international marketing environment. That environment has changed a great deal in the past two decades, creating both new opportunities and new problems.

The International Trade System

The World Trade Organization and GATT

GATT is a 62-year-old treaty designed to promote world trade by reducing tariffs and other international trade barriers. Since the treaty's inception in 1947, member nations (currently numbering 153) have met in eight rounds ofGATT negotiations to reassess trade barriers and establish new rules for international trade. The first seven rounds of negotiations reduced the average worldwide tariffs on manufactured goods from 45 percent to just 5 percent.

The most recently completed GATT negotiations, dubbed the Uruguay Round, dragged on for seven long years before concluding in 1994. The benefits of the Uruguay Round will be felt for many years as the accord promotes long-term global trade growth. It reduced the world's remaining merchandise tariffs by 30 percent. The agreement also extended GATT to cover trade in agriculture and a wide range of services, and it toughened the international protection of copyrights, patents, trademarks, and other intellectual property. Although the financial impact of such an agreement is difficult to measure, research suggests that cutting agriculture, manufacturing, and services trade barriers by one-third would boost the world economy by $613 billion, the equivalent of adding another Poland to the world economy.9

Beyond reducing trade barriers and setting global standards for trade, the Uruguay Round created the WTO to enforce GATT rules. In general, the WTO acts as an umbrella organization, overseeing GATT, mediating global disputes, helping developing countries build trade capacity, and imposing trade sanctions. The previous GATT organization never had such authorities. Anew round of GATT negotiations, the Doha round, began in Doha, Qatar, in late 2001 and was set to conclude in 2005, but the discussions still continued through 2010.10

Regional Free Trade Zones

Certain countries have formed free trade zones or **economic communities**. These are groups of nations organized to work toward common goals in the regulation of international trade. One such community is the European Union (EU). Formed in 1957, the EU set out to create a single European market by reducing barriers to the free flow of products, services, finances, and labor among member countries and developing policies on trade with non-member nations. Today, the EU represents one of the world's largest single markets. Currently, it has 27 member countries containing close to half a billion consumers and accounting for more than 20 percent of the world's exports.11

European unification offers tremendous trade opportunities for U.S. and other non- European firms. However, it also poses threats. As a result of increased unification, European companies have grown bigger and more competitive. Perhaps an even greater concern, however, is that lower barriers inside Europe will create only thicker outside walls. Some observers envision a “Fortress Europe” that heaps favors on firms from EU countries but hinders outsiders by imposing obstacles.

Progress toward European unification has been slow. In recent years, however, 16 member nations have taken a significant step toward unification by adopting the euro as a common currency. Many other countries are expected to follow within the next few years.Widespread adoption of the euro will decrease much of the currency risk associated with doing business in Europe, making member countries with previously weak currencies more attractive markets. However, even with the adoption of the euro, it is unlikely that the EU will ever go against 2,000 years of tradition and become the “United States of Europe.” A community with more than two-dozen different languages and cultures will always have difficulty coming together and acting as a single entity. Still, with a combined annual GDP of more than $16.1 trillion, the EU has become a potent economic force.

In 1994, the North American Free Trade Agreement (NAFTA) established a free trade zone among the United States, Mexico, and Canada. The agreement created a single market of 452 million people who produce and consume almost $17 trillion worth of goods and services annually. Over the past 15 years, NAFTAhas eliminated trade barriers and investment restrictions among the three countries. According to the International Monetary Fund, total trade among the three countries has more than doubled from $306 billion in 1993 to $637 billion in 2009.14

A nation’s readiness for different products and services and its attractiveness as a market to foreign firms depend on its economic, political-legal, and cultural environments.

Economic Environment

The international marketer must study each country’s economy. Two economic factors reflect the country’s attractiveness as a market: its industrial structure and its income distribution.

The country’s industrial structure shapes its product and service needs, income levels, and employment levels. The four types of industrial structures are as follows:

• Subsistence economies: In a subsistence economy, the vast majority of people engage in simple agriculture. They consume most of their output and barter the rest for simple goods and services. They offer few market opportunities.

• Raw material exporting economies: These economies are rich in one or more natural resources but poor in other ways. Much of their revenue comes from exporting these resources. Some examples are Chile (tin and copper), the Democratic Republic of the Congo (copper, cobalt, and coffee), and Saudi Arabia (oil). These countries are good markets for large equipment, tools and supplies, and trucks. If there are many foreign residents and a wealthy upper class, they are also a market for luxury goods.

• Emerging economies (industrializing economies): In an emerging economy, fast growth in manufacturing results in rapid overall economic growth. Examples include the BRIC countries—Brazil, Russia, India, and China. As manufacturing increases, the country needs more imports of raw textile materials, steel, and heavy machinery, and fewer imports of finished textiles, paper products, and automobiles. Industrialization typically creates a new rich class and a small but growing middle class, both demanding new types of imported goods.

• Industrial economies: Industrial economies are major exporters of manufactured goods, services, and investment funds. They trade goods among themselves and also export them to other types of economies for raw materials and semifinished goods. The varied manufacturing activities of these industrial nations and their large middle class make them rich markets for all sorts of goods. Examples include the United States, Japan, and Norway.

The second economic factor is the country's income distribution. Industrialized nations may have low-, medium-, and high-income households. In contrast, countries with subsistence economies consist mostly of households with very low family incomes. Still other countries may have households with only either very low or very high incomes. Even poor or emerging economies may be attractive markets for all kinds of goods.

Political-Legal Environment

Nations differ greatly in their political-legal environments. In considering whether to do business in a given country, a company should consider factors such as the country's attitudes toward international buying, government bureaucracy, political stability, and monetary regulations.

Some nations are very receptive to foreign firms; others are less accommodating. For example, India has tended to bother foreign businesses with import quotas, currency restrictions, and other limitations that make operating there a challenge. In contrast, neighboring Asian countries, such as Singapore and Thailand, court foreign investors and shower them with incentives and favorable operating conditions. Political and regulatory stability is another issue. For example, Venezuela's government is notoriously volatile—due to economic factors such as inflation and steep public spending—which increases the risk of doing business there. Although most international marketers still find the Venezuelan market attractive, the unstable political and regulatory situation will affect how they handle business and financial matters.17

The Impact of Culture on Marketing Strategy

Sellers must understand the ways that consumers in different countries think about and use certain products before planning a marketing program. There are often surprises. For example, the average French man uses almost twice as many cosmetics and grooming aids as his wife. The Germans and the French eat more packaged, branded spaghetti than Italians do. Some 49 percent of Chinese eat on the way to work. Most

American women let down their hair and take off makeup at bedtime, whereas 15 percent of Chinese women style their hair at bedtime and 11 percent put on makeup.19

Business norms and behavior also vary from country to country. For example, American executives like to get right down to business and engage in fast and tough face-to-face bargaining. However, Japanese and other Asian businesspeople often find this behavior offensive.

They prefer to start with polite conversation, and they rarely say no in face-to-face conversations. As another example, South Americans like to sit or stand very close to each other when they talk business—in fact, almost nose-to-nose. An American business executive tends to keep backing away as the South American moves closer. Both may end up being offended. American business executives need to understand these kinds of cultural nuances before conducting business in another country. By the same token, companies that understand cultural nuances can use them to their advantage when positioning products and preparing campaigns internationally. Consider LG Electronics, the $22 billion South Korean electronics, telecommunications, and appliance powerhouse. LG now operates in more than 60 countries and captures 87 percent of its sales from markets outside its home country. LG's global success rests on understanding and catering to the unique characteristics of each local market through in-country research, manufacturing, and marketing.

If you've got kimchi in your fridge, it's hard to keep it a secret. Made from fermented cabbage seasoned with garlic and chili, kimchi is served with most meals in Korea. But when it's stored inside a normal refrigerator, its pungent odor taints nearby foods. That's why, two decades ago, LG introduced the kimchi refrigerator, featuring a dedicated compartment that isolates smelly kimchi from other foods. Kimchi refrigerators have become a fixture in 65 percent of Korean homes, and LG is the country's top-selling manufacturer.

The Impact of Marketing Strategy on Cultures

Whereas marketers worry about the impact of culture on their global marketing strategies, others may worry about the impact of marketing strategies on global cultures. For example, social critics contend that large American multinationals, such as McDonald's, Coca-Cola, Starbucks, Nike, Microsoft, Disney, and MTV, aren't just "globalizing" their brands; they are "Americanizing" the world's cultures.

There are now as many people studying English in China (or playing basketball, for that matter) as there are people in the United States. Seven of the 10 most watched TV shows around the world are American, Avatar is the top-grossing film of all time in China, and the world is as fixated on U.S. brands as ever, which is why U.S. multinationals from McDonald's to Nike book more than half their revenues overseas. If you bring together teenagers from Nigeria, Sweden, South Korea, and Argentina—to pick a random foursome—what binds these kids together in some kind of community is American culture—the music, the Hollywood fare, the electronic games, Google, American consumer brands. The only thing they will likely have in common that doesn't revolve around the United States is an interest in soccer. The . . . rest of the world is becoming [evermore] like us—in ways good and bad.

Deciding Whether to Go Global

Not all companies need to venture into international markets to survive. For example, most local businesses need to market well only in their local marketplace. Operating domestically is easier and safer. Managers don't need to learn another country's language and laws. They don't have to deal with unstable currencies, face political and legal uncertainties, or redesign their products to suit different customer expectations. However, companies that operate in global industries, where their strategic positions in specific markets are affected strongly by their overall global positions, must compete on a regional or worldwide basis to succeed. Any of several factors might draw a company into the international arena. Global competitorsmight attack the company's home market by offering better products or lower prices.

The company might want to counterattack these competitors in their home markets to tie up their resources. The company's customers might be expanding abroad and require international servicing. Or, most likely, international markets might simply provide better opportunities for growth. For example, Coca-Cola has emphasized international growth in recent years to offset stagnant or declining U.S. soft drink sales. "It's been apparent that Coke's signature cola can't grow much on its home turf anymore," states an industry analyst.

Today, about 80 percent of Coke's profits come from outside North America. Before going abroad, the company must weigh several risks and answer many questions about its ability to operate globally. Can the company learn to understand the preferences and buyer behavior of consumers in other countries? Can it offer competitively attractive products? Will it be able to adapt to other countries' business cultures and deal effectively with foreign nationals? Do the company's managers have the necessary international experience? Has management considered the impact of regulations and the political environments of other countries?

Market Entry Strategies goods in its home country. It may or may not modify them for the export market. Exporting involves the least change in the company's product lines, organization, investments, or mission.

Companies typically start with indirect exporting, working through independent international marketing intermediaries. Indirect exporting involves less investment because the firm does not require an overseas marketing organization or network. It also involves less risk. International marketing intermediaries bring know-how and services to the relationship, so the seller normally makes fewer mistakes. Sellers may eventually move into direct exporting, whereby they handle their own exports. The investment and risk are somewhat greater in this strategy, but so is the potential return.

Joint Venturing

A second method of entering a foreign market is by **joint venturing—** joining with foreign companies to produce or market products or services. Joint venturing differs from exporting in that the company joins with a host country partner to sell or market abroad. It differs from direct investment in that an association is formed with someone in the foreign country. There are four types of joint ventures: licensing, contract manufacturing, management contracting, and joint ownership.

Licensing is a simple way for a manufacturer to enter international marketing. The company enters into an agreement with a licensee in the foreign market. For a fee or royalty payments, the licensee buys the right to use the company's manufacturing process, trademark, patent, trade secret, or other item of value. The company thus gains entry into a foreign market at little risk; the licensee gains production expertise or a well-known product or name without having to start from scratch.

Contract Manufacturing

Another option is **contract manufacturing—**the company contracts with manufacturers in the foreign market to produce its product or provide its service. Sears used this method in opening up department stores in Mexico and Spain, where it found qualified local manufacturers to produce many of the products it sells. The drawbacks of contract manufacturing are decreased control over the manufacturing process and loss of potential profits on manufacturing. The benefits are the chance to start faster, with less risk, and the later opportunity either to form a partnership with or buy out the local manufacturer.

Management Contracting

Under **management contracting**, the domestic firm supplies management know-how to a foreign company that supplies the capital. The domestic firm exports management services rather than products. Hilton uses this arrangement in managing hotels around the world. For example, the hotel chain recently opened a Doubletree by Hilton in the United Arab Emirates. The property is locally owned, but Hilton manages the hotel with its worldrenowned hospitality expertise.28

Management contracting is a low-risk method of getting into a foreign market, and it yields income from the beginning. The arrangement is even more attractive if the contracting firm has an option to buy some share in the managed company later on. The arrangement is not sensible, however, if the company can put its scarce management talent to better uses or if it can make greater profits by undertaking the whole venture. Management contracting also prevents the company from setting up its own operations for a period of time.

Joint ownership ventures consist of one company joining forces with foreign investors to create a local business in which they share joint ownership and control. Acompany may buy an interest in a local firm, or the two parties may form a new business venture. Joint ownership may be needed for economic or political reasons. The firm may lack the financial, physical, or managerial resources to undertake the venture alone. Or a foreign government may require joint ownership as a condition for entry. Best Buy recently formed a 50/50 joint venture with UK-based Carphone Warehouse to open its first European Best Buy stores, starting in Britain:29 A new Best Buy store in Britain is exactly like its American counterpart. Even the carpets and the fittings have been imported from the United States. But the management team and senior employees are from the United Kingdom.

Deciding on the Global Marketing Program

Companies that operate in one or more foreign markets must decide how much, if at all, to adapt their marketing strategies and programs to local conditions. At one extreme are global companies that use **standardized global marketing**, essentially using the same marketing strategy approaches and marketing mix worldwide. At the other extreme is **adapted global marketing**. In this case, the producer adjusts the marketing strategy and mix elements to each target market, bearing more costs but hoping for a larger market share and return.

The question of whether to adapt or standardize the marketing strategy and program has been much debated over the years. On the one hand, some global marketers believe that technology is making the world a smaller place, and consumer needs around the world are becoming more similar. This paves the way for "global brands" and standardized global marketing. Global branding and standardization, in turn, result in greater brand power and reduced costs from economies of scale.

On the other hand, the marketing concept holds that marketing programs will be more effective if tailored to the unique needs of each targeted customer group. If this concept applies within a country, it should apply even more across international markets. Despite global convergence, consumers in different countries still have widely varied cultural backgrounds.

Five Global Product and Communications Strategies

Five strategies allow for adapting product and marketing communication strategies to a global market.32 We first discuss the three product strategies and then turn to the two communication strategies.

Straight product extension means marketing a product in a foreign market without any change. Top management tells its marketing people, "Take the product as is and find customers for it." The first step, however, should be to find out whether foreign consumers use that product and what form they prefer. Straight extension has been successful in some cases and disastrous in others. Apple iPads, Gillette razors, Black & Decker tools, and even 7–11 Slurpees are all sold successfully in about the same form around the world. But when General Foods introduced its standard powdered JELL-O in the British market, it discovered that British consumers prefer a solid wafer or cake form. Likewise, Philips began to make a profit in Japan only after it reduced the size of its coffeemakers to fit into smaller Japanese kitchens and its shavers to fit smaller Japanese hands. Straight extension is tempting because it involves no additional product development costs, manufacturing changes, or new promotion. But it can be costly in the long run if products fail to satisfy consumers in specific global markets.

Product adaptation involves changing the product to meet local conditions or wants. For example, Finnish cell phone maker Nokia customizes its cell phones for every major market. To meet the needs of less-affluent consumers in large developing countries such as India, China, and Kenya, the company has created full-featured but rugged and low-cost phones especially designed for harsher living conditions. For instance, it developed dustproof keypads—crucial in dry, hot countries with many unpaved roads. Some phones have built-in radio antennas for areas where radio is the main source of entertainment. Thanks to such adaptation, Nokia commands a whopping 62.3 percent share of the market in Africa and the Middle East, 48.5 percent in Eastern Europe, and 41.8 percent in Asia.33

Product invention

Creating new products or services for foreign markets.

Campbell found out the hard way that it couldn't just slap new labels on its products and peddle them abroad:34 In its first foray into China in the early 1990s, Campbell essentially slapped a Chinese label on its classic U.S. condensed soups. They sold well for a while, but when the novelty wore off, sales fell and Campbell withdrew. The company returned to China in 2007, but only after two years of thorough research with Chinese consumers. It found that in China, as well as Russia, there's a cultural disposition to cooking soup from scratch. In both countries, about 98 percent of soup is homemade. So, in both countries, Campbell has now introduced products that reduce the time to make homemade soup from 2.5 hours to about 45 minutes. Getting the product right is important. Consumers in each country typically eat soup four to five times per week, compared with once a week in the United States. Campbell estimates that if it could capture just 3 percent of the soup market in the two countries combined, it would create a business as big as the entire U.S. soup market.

Product invention consists of creating something new to meet the needs of consumers in a given country. For example, companies ranging from computer and carmakers to candy producers have developed products that meet the special purchasing needs of low-income consumers in developing economies such as India and China. Ford developed the economical, low-priced Figo model especially for entry-level consumers in India. And Cadbury, long known for its premium chocolates, is now developing products for less affluent consumers in India and other developing economies:35

Promotion

Companies can either adopt the same communication strategy they use in the home market or change it for each local market. Consider advertising messages. Some global companies use a standardized advertising theme around the world.

Other companies follow a strategy of **communication adaptation**, fully adapting their advertising messages to local markets. Kellogg ads in the United States promote the taste and nutrition of Kellogg's cereals versus competitors' brands. In France, where consumers drink little milk and eat little for breakfast, Kellogg's ads must convince consumers that cereals are a tasty and healthful breakfast. In India, where many consumers eat heavy, fried breakfasts, Kellogg's advertising convinces buyers to switch to a lighter, more nutritious breakfast diet.

Whole-Channel Concept for International Marketing Distribution Channels

An international company must take a **whole-channel view** of the problem of distributing products to final consumers. The first link, channels between nations, moves company products from points of production to the borders of countries within which they are sold. The second link, channels within nations, moves products from their market entry points to the final consumers. The whole-channel view takes into account the entire global supply chain and marketing channel. It recognizes that to compete well internationally, the company must effectively design and manage an entire global value delivery network.

Deciding on the Global Marketing Organization

Companies manage their international marketing activities in at least three different ways: Most companies first organize an export department, then create an international division, and finally become a global organization. A firm normally gets into international marketing by simply shipping out its goods. If its international sales expand, the company will establish an export department with a sales manager and a few assistants. As sales increase, the export department can expand to include various marketing services so that it can actively go after business. If the firm moves into joint ventures or direct investment, the export department will no longer be adequate. Many companies get involved in several international markets and ventures. A company may export to one country, license to another, have a joint ownership venture in a third, and own a subsidiary in a fourth. Sooner or later it will create international divisions or subsidiaries to handle all its international activity.

Review Questions

1. Explain what is meant by the term global firm and list the six major decisions involved in international marketing.

2. Discuss the types of restrictions governments might impose on trade between nations.

3. Name and define the four types of country industrial structures.

4. What factors do companies consider when deciding on possible global markets to enter?

5. Discuss the three ways to enter foreign markets. Which is the best?

6. Discuss how global distribution channels differ from domestic channels.

Further Readings

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UNIT-20 SUSTAINABLE MARKETING SOCIAL RESPONSIBILITY AND ETHICS

CONTENTS

INTRODUCTION

Responsible marketers discover what consumers want and respond with market offerings that create value for buyers and capture value in return. The marketing concept is a philosophy of customer value and mutual gain. Its practice leads the economy by an invisible hand to satisfy the many and changing needs of millions of consumers. Not all marketers follow the marketing concept, however. In fact, some companies use questionable marketing practices that serve their own rather than consumers' interests. Moreover, even well-intentioned marketing actions that meet the current needs of some consumers may cause immediate or future harm to other consumers or the larger society. Responsible marketers must consider whether their actions are sustainable in the longer run. Consider the sale of SUVs. These large vehicles meet the immediate needs of many drivers in terms of capacity, power, and utility. However, SUV sales involve larger questions of consumer safety and environmental responsibility. For example, in accidents, SUVs are more likely to kill both their own occupants and the occupants of other vehicles. Research shows that SUV occupants are three times more likely to die from their vehicle rolling than are occupants of sedans. Moreover, gas-guzzling SUVs use more than their fair share of the world's energy and other resources and contribute disproportionately to pollution and congestion problems, creating cost that must be borne by both current and future generations.

This unit examines sustainable marketing and the social and environmental effects of private marketing practices. First, we address the question: What is sustainable marketing and why is it important?

Sustainable marketing calls for socially and environmentally responsible actions that meet the present needs of consumers and businesses while also preserving or enhancing the ability of future generations to meet their needs. The marketing concept recognizes that organizations thrive from day to day by determining the current needs and wants of target group customers and fulfilling those needs and Marketers must think beyond immediate customer satisfaction and business performance toward strategies that preserve the world for future generations.

Social Criticisms of Marketing

Marketing receives much criticism. Some of this criticism is justified; much is not. Social critics claim that certain marketing practices hurt individual consumers, society as a whole, and other business firms. Consumers have many concerns about how well the American marketing system serves their interests. Surveys usually show that consumers hold mixed or even slightly unfavourable attitudes toward marketing practices. Consumer advocates, government agencies, and other critics have accused marketing of harming consumers through high prices, deceptive practices; high-pressure selling, shoddy or unsafe products, planned obsolescence, and poor service to disadvantaged consumers. Such questionable marketing practices are not sustainable in terms of long-term consumer or business welfare.

High Prices

Many critics charge that the American marketing system causes prices to be higher than they would be under more “sensible” systems. Such high prices are hard to swallow, especially when the economy takes a downturn. Critics point to three factors—high costs of distribution, high advertising and promotion costs, and excessive markups.

High Costs of Distribution. A long-standing charge is that greedy channel intermediaries mark up prices beyond the value of their services. Critics charge that there are too many intermediaries, that intermediaries are inefficient, or that they provide unnecessary or duplicate services. As a result, distribution costs too much, and consumers pay for these excessive costs in the form of higher prices.

How do resellers answer these charges? They argue that intermediaries do work that would otherwise have to be done by manufacturers or consumers. Markups reflect services that consumers themselves want—more convenience, larger stores and assortments, more service, longer store hours, return privileges, and others. In fact, they argue, retail competition is so intense that margins are actually quite low. If some resellers try to charge too much relative to the value they add, other resellers will step in with lower prices. Low-price stores such as Walmart, Costco, and other discounters pressure their competitors to operate efficiently and keep their prices down. In fact, in the wake of the recent recession, only the most efficient retailers have survived profitably.

High Advertising and Promotion Costs. Modern marketing is also accused of pushing up prices to finance heavy advertising and sales promotion. For example, a few dozen tablets of a heavily promoted brand of pain reliever sell for the same price as 100 tablets of less-promoted brands. Differentiated products—cosmetics, detergents, toiletries—include promotion and packaging costs that can amount to 40 percent or more of the manufacturer’s price to the retailer. Critics charge that much of the packaging and promotion adds only psychological, not functional, value to the product.

High-Pressure Selling

Salespeople are sometimes accused of high-pressure selling that persuades people to buy goods they had no thought of buying. It is often said that insurance, real estate, and used cars are sold, not bought. Salespeople are trained to deliver smooth, canned talks to entice purchase. They sell hard because sales contests promise big prizes to those who sell the most. Similarly, TV infomercial pitchmen use "yell and sell" presentations that create a sense of consumer urgency that only those with the strongest willpower can resist.

But in most cases, marketers have little to gain from high-pressure selling. Such tactics may work in one-time selling situations for short-term gain. However, most selling involves building long-term relationships with valued customers. High-pressure or deceptive selling can seriously damage such relationships. For example, imagine a P&G account manager trying to pressure a Walmart buyer or an IBM salesperson trying to browbeat an information technology manager at GE. It simply wouldn't work.

Shoddy, Harmful, or Unsafe Products

Another criticism concerns poor product quality or function. One complaint is that, too often, products and services are not made or performed well. A second complaint concerns product safety. Product safety has been a problem for several reasons, including company indifference, increased product complexity, and poor quality control. A third complaint is that many products deliver little benefit or that they might even be harmful. For example, think again about the fast-food industry. Many critics blame the plentiful supply of fat-laden, high calorie, fast-food fare for the nation's rapidly growing obesity epidemic.

False Wants and Too Much Materialism

Critics have charged that the marketing system urges too much interest in material possessions, and America's love affair with worldly possessions is not sustainable. Too often, people are judged by what they own rather than by who they are. The critics do not view this interest in material things as a natural state of mind but rather as a matter of false wants created by marketing. Marketers, they claim, stimulate people's desires for goods and create materialistic models of the good life. Thus, marketers have created an endless cycle of mass consumption based on a distorted interpretation of the "American Dream." The Constitution speaks of life, liberty, and the pursuit of happiness, not an automatic chicken in every pot. One sociologist attributes consumer overspending to a growing "aspiration gap"—the gap between what we have and what we want, between the lifestyles we can afford and those to which we aspire. This aspiration gap results at least partly from a barrage of marketing that encourages people to focus on the acquisition and consumption of goods. Advertising encourages consumers to aspire to celebrity lifestyles, to keep up with the Joneses by acquiring more stuff. Some marketingfrenzied consumers will let nothing stand between them and their acquisitions. Recently, at a Walmart store in New York, a mob of 2,000 eager shoppers broke through a glass door in their rush to get to post-Thanksgiving sales items, trampling a store employee to death in the process.10

Too Few Social Goods

Business has been accused of overselling private goods at the expense of public goods. As private goods increase, they require more public services that are usually not forthcoming. For example, an increase in automobile ownership (private good) requires more highways, traffic control, parking spaces, and police services (public goods). The overselling of private goods results in "social costs." For cars, some of the social costs include traffic congestion, gasoline shortages, and air pollution. For example, American travelers lose, on average, hours a year in traffic jams, costing the United States more than $87 billion a year. In the process, they waste 2.8 billion gallons of fuel and emit millions of tons of greenhouse gases.

Consumerism

Consumerism is an organized movement of citizens and government agencies to improve the rights and power of buyers in relation to sellers. Traditional sellers' rights include the following:

• The right to introduce any product in any size and style, provided it is not hazardous to personal health or safety, or, if it is, to include proper warnings and controls

• The right to charge any price for the product, provided no discrimination exists among similar kinds of buyers

• The right to spend any amount to promote the product, provided it is not defined as unfair competition

• The right to use any product message, provided it is not misleading or dishonest in content or execution

• The right to use buying incentive programs, provided they are not unfair or misleading Traditional buyers' rights include the following:

• The right not to buy a product that is offered for sale

• The right to expect the product to be safe

• The right to expect the product to perform as claimed

Comparing these rights, many believe that the balance of power lies on the seller's side. True, the buyer can refuse to buy. But critics feel that the buyer has too little information, education, and protection to make wise decisions when facing sophisticated sellers. Consumer advocates call for the following additional consumer rights:

• The right to be well informed about important aspects of the product

• The right to be protected against questionable products and marketing practices

• The right to influence products and marketing practices in ways that will improve "quality of life"

• The right to consume now in a way that will preserve the world for future generations of consumers relating to quality of life include controlling the ingredients that go into certain products and packaging and reducing the level of advertising "noise." Proposals for preserving the world for future consumption include promoting the use of sustainable ingredients, recycling and reducing solid wastes, and managing energy consumption.

Sustainable marketing applies not only to consumers but also to businesses and governments. Consumers have not only the right but also the responsibility to protect themselves instead of leaving this function to the government or someone else. Consumers who believe they got a bad deal have several remedies available, including contacting the company or the media; contacting federal, state, or local agencies; and going to small-claims courts. Consumers should also make good consumption choices, rewarding companies that act responsibly while punishing those that don't. Ultimately, the move from irresponsible consumption to sustainable consumption is in the hands of consumers.

Environmentalism

Whereas consumerists consider whether the marketing system is efficiently serving consumer wants, environmentalists are concerned with marketing's effects on the environment and the environmental costs of serving consumer needs and wants.

Environmentalism is an organized movement of concerned citizens, businesses, and government agencies to protect and improve people's current and future living environment.

Environmentalists are not against marketing and consumption; they simply want people and organizations to operate with more care for the environment. "Too often the environment is seen as one small piece of the economy," says one activist. "But it's not just one little thing; it's what every single thing in our life depends upon."19 The marketing system's goal, the environmentalists assert, should not be to maximize consumption, consumer choice, or consumer satisfaction but rather maximize life quality. "Life quality" means not only the quantity and quality of consumer goods and services but also the quality of the environment.

The first wave of modern environmentalism in the United States was driven by environmental groups and concerned consumers in the 1960s and 1970s. They were concerned with damage to the ecosystem caused by strip-mining, forest depletion, acid rain, global warming, toxic and solid wastes, and litter. They were also concerned with the loss of recreational areas and the increase in health problems caused by bad air, polluted water, and chemically treated food.

The second environmentalism wave was driven by the federal government, which passed laws and regulations during the 1970s and 1980s governing industrial practices impacting the environment. This wave hit some industries hard. Steel companies and utilities had to invest billions of dollars in pollution control equipment and costlier fuels. The auto industry had to introduce expensive emission controls in cars. The packaging industry had to find ways to improve recyclability and reduce solid wastes. These industries and others have often resented and resisted environmental regulations, especially when they have been imposed too rapidly to allow companies to make proper adjustments. Many of these companies claim they have had to absorb large costs that have made them less competitive. The first two environmentalism waves have now merged into a third and stronger wave in which companies are accepting more responsibility for doing no harm to the environment.

They are shifting from protest to prevention and from regulation to responsibility. More and more companies are adopting policies of **environmental sustainability**. Simply put, environmental sustainability is about generating profits while helping to save the planet. Environmental sustainability is a crucial but difficult societal goal.

Some companies have responded to consumer environmental concerns by doing only what is required to avert new regulations or keep environmentalists quiet. Enlightened companies, however, are taking action not because someone is forcing them to or to reap short-run profits but because it's the right thing to do—for both the company and the planet's environmental future.

In includes both internal and external "greening" activities that will pay off for the firm and environment in the short run and "beyond greening" activities that will pay off in the longer term. At the most basic level, a company can practice pollution prevention. This involves more than pollution control—cleaning up waste after it has been created.

Pollution prevention means eliminating or minimizing waste before it is created. Companies

emphasizing prevention have responded with internal "green marketing" programs— designing and developing ecologically safer products, recyclable and biodegradable packaging, better pollution controls, and more energy-efficient operations.

Business Actions Toward Sustainable Marketing

At first, many companies opposed consumerism, environmentalism, and other elements of sustainable marketing. They thought the criticisms were either unfair or unimportant. But by now, most companies have grown to embrace sustainability marketing principles as a way to create greater immediate and future customer value and strengthen customer relationships.

Sustainable Marketing Principles

Under the sustainable marketing concept, a company's marketing should support the best long-run performance of the marketing system. It should be guided by five sustainable marketing principles: consumer-oriented marketing, customer-value marketing, innovative marketing, sense-of-mission marketing, and societal marketing.

Consumer-oriented marketing means that the company should view and organize its marketing activities from the consumer's point of view. It should work hard to sense, serve, and satisfy the needs of a defined group of customers—both now and in the future. The good marketing companies that we've discussed in this text have had this in common: an all-consuming passion for delivering superior value to carefully chosen customers. Only by

Customer-Value Marketing

According to the principle of **customer-value marketing**, the company should put most of its resources into customer-value-building marketing investments. Many things marketers do—one-shot sales promotions, cosmetic packaging changes, direct-response advertising— may raise sales in the short run but add less value than would actual improvements in the product's quality, features, or convenience. Enlightened marketing calls for building longrun consumer loyalty and relationships by continually improving the value consumers receive

from the firm's market offering. By creating value for consumers, the company can capture value from consumers in return.

Innovative Marketing

The principle of **innovative marketing** requires that the company continuously seek real product and marketing improvements. The company that overlooks new and better ways to do things will eventually lose customers to another company that has found a better way. An excellent example of an innovative marketer is Nintendo:

Not too many years ago, Samsung was a copycat consumer electronics brand you bought if you couldn't afford Sony. But today, the brand holds a high-end, cutting-edge aura. In 1996, Samsung Electronics turned its back on making cheap knock-offs and set out to overtake rival Sony, not just in size but also in style and innovation. It hired a crop of fresh, young designers who unleashed a torrent of sleek, bold, and beautiful new products targeted to high-end users. Samsung called them "lifestyle works of art"—from brightly colored cell phones to large-screen TVs that hung on walls like paintings. Every new product had to pass the "Wow!" test: if it didn't get a "Wow!" reaction during market testing, it went straight back to the design studio. Thanks to its strategy of innovation, the company quickly surpassed its lofty goals—and more. Samsung Electronics is now, by far, the world's largest consumer electronics company, with 50 percent greater sales than Sony. It's the world's largest TV manufacturer and second-largest cell phone producer. And its designs are coveted by consumers. Samsung recently bagged eight awards at the International Design Excellence Awards (IDEA); design darling Apple took home only seven awards. Says a Samsung designer, "We are not el cheapo anymore."27

Sense-of-mission marketing means that the company should define its mission in broad social terms rather than narrow product terms. When a company defines a social mission, employees feel better about their work and have a clearer sense of direction. Brands linked with broader missions can serve the best long-run interests of both the brand and consumers.

Societal Marketing

Following the principle of **societal marketing**, a company makes marketing decisions by considering consumers' wants, the company's requirements, consumers' long-run interests, and society's long-run interests. Companies should be aware that neglecting consumer and societal long-run interests is a disservice to consumers and society. Alert companies view societal problems as opportunities.

Deficient products, such as bad-tasting and ineffective medicine, have neither immediate appeal nor long-run benefits. **Pleasing products** give high immediate satisfaction but may hurt consumers in the long run. Examples include cigarettes and junk food. **Salutary products** have low immediate appeal but may benefit consumers in the long run; for instance, bicycle helmets or some insurance products. **Desirable products** give both high immediate satisfaction and high long-run benefits, such as a tasty and nutritious breakfast food.

Ethical Norms and Values for Marketers

Preamble The American Marketing Association commits itself to promoting the highest standard of professional ethical norms and values for its members. Norms are established standards of conduct that are expected and maintained by society and/or professional organizations. Values represent the collective conception of what communities find desirable, important and morally proper. Values also serve as the criteria for evaluating our own personal actions and the actions of others. As marketers, we r ecognize that we not only serve our organizations but also act as stewards of society in creating, facilitating and executing the transactions that are part of the greater economy. In this role, marketers are expected to embrace the highest professional ethical norms and the ethical values implied by our responsibility toward multiple stakeholders (e.g., customers, employees, investors, peers, channel members, regulators and the host community).

Ethical Norms

As Marketers, we must:

1. Do no harm. This means consciously avoiding harmful actions or omissions by embodying high ethical standards and adhering to all applicable laws and regulations in the choices we make.

2. Foster trust in the marketing system. This means striving for good faith and fair dealing so as to contribute toward the efficacy of the exchange process as well as avoiding deception in product design, pricing, communication, and delivery of distribution.

3. Embrace ethical values. This means building relationships and enhancing consumer confidence in the integrity of marketing by affirming these core values: honesty, responsibility, fairness, respect, transparency and citizenship. that the most flagrant bribe-paying firms were from India, Russia, and China. Other countries where corruption is common include Iraq, Myanmar, and Haiti. The least corrupt were companies from Sweden, New Zealand, and Denmark.33 The question arises as to whether a company must lower its ethical standards to compete effectively in countries with lower standards. The answer is no. Companies should make a commitment to a common set of shared standards worldwide.

Ethical Values

Honesty—to be forthright in dealings with customers and stakeholders. To this end, we will:

• Strive to be truthful in all situations and at all times.
• Offer products of value that do what we claim in our communications.
• Stand behind our products if they fail to deliver their claimed benefits.
• Honor our explicit and implicit commitments and promises.

Responsibility—to accept the consequences of our marketing decisions and strategies. To his end, we will:

• Strive to serve the needs of customers.
• Avoid using coercion with all stakeholders.
• Acknowledge the social obligations to stakeholders that come with increased marketing and economic power.
• Recognize our special commitments to vulnerable market segments such as children, seniors, the economically impoverished, market illiterates and others who may be substantially disadvantaged. • Consider environmental stewardship in our decision-making.

Fairness—to balance justly the needs of the buyer with the interests of the seller. To this end, we will:
• Represent products in a clear way in selling, advertising and other forms of communication; this includes the avoidance of false, misleading and deceptive promotion.
• Reject manipulations and sales tactics that harm customer trust.
• Revise to engage in price fixing, predatory pricing, price gouging or "bait-and-switch" tactics.
• Avoid knowing participation in conflicts of interest.
• Seek to protect the private information of customers, employees and partners.
Respect—to acknowledge the basic human dignity of all stakeholders. To this end, we will:
• Value individual differences and avoid stereotyping customers or depicting demographic groups (e.g., gender, race, sexual orientation) in a negative or dehumanizing way.
• Listen to the needs of customers and make all reasonable efforts to monitor and improve their satisfaction on an ongoing basis.
• Make every effort to understand and respectfully treat buyers, suppliers, intermediaries and distributors from all cultures.
• Acknowledge the contributions of others, such as consultants, employees and coworkers, to marketing endeavors.
• Treat everyone, including our competitors, as we would wish to be treated.
Transparency—to create a spirit of openness in marketing operations. To this end, we will:
• Strive to communicate clearly with all constituencies.
• Accept constructive criticism from customers and other stakeholders.
• Explain and take appropriate action regarding significant product or service risks, component substitutions or other foreseeable eventualities that could affect customers or their perception of the purchase decision.
• Disclose list prices and terms of financing as well as available price deals and adjustments.
Citizenship—to fulfill the economic, legal, philanthropic, and societal responsibilities that serve stakeholders. To this end, we will:
• Strive to protect the ecological environment in the execution of marketing campaigns.
• Give back to the community through volunteerism and charitable donations.
• Contribute to the overall betterment of marketing and its reputation.
• Urge supply chain members to ensure that trade is fair for all participants, including producers in developing countries.

Implementation

We expect AMA members to be courageous and proactive in leading and/or aiding their organizations in the fulfillment of the explicit and implicit promises made to those stakeholders. We recognize that every industry sector and marketing sub-discipline (e.g., marketing research, e-commerce, Internet selling, direct marketing, and advertising) has its own specific ethical issues that require policies and commentary. An array of such codes can be accessed through links on the AMA Web site.

Consistent with the principle of subsidiarity (solving issues at the level where the expertise resides), we encourage all such groups to develop and/or refine their industry and discipline-specific codes of ethics to supplement these guiding ethical norms and values. Source: Reprinted with permission of the American Marketing Association, vice to disadvantaged consumers. Marketing's impact on society has been criticized for creating false wants and too much materialism, too few social goods, and cultural pollution. Critics have also denounced marketing's impact on other businesses for harming competitors and reducing competition through acquisitions, practices
that create barriers to entry, and unfair competitive marketing practices. Some of these concerns are justified; some are not.

REVIEW QUESTIONS

1. What is sustainable marketing? Explain how the sustainable marketing concept differs from the marketing concept and the societal marketing concept.

2. Discuss the issues relevant to marketing's impact on society as a whole and how marketers respond to these criticisms.

3. Discuss the types of harmful impact that marketing practices can have on competition and the associated problems.

4. What is consumerism? Describe the rights of sellers and buyers.

5. Describe the five sustainable marketing principles and explain how companies benefit from adhering to them.

6. Describe the two philosophies regarding what principle should guide companies and marketing managers on issues of ethics and social responsibility.

FURTHER READINGS

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